

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

(MARK ONE)

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

**For The Quarterly Period Ended JUNE 30, 2007**

**OR**

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

**For the transition period from \_\_\_ to \_\_\_**

**Commission File Number 1-7573**

**PARKER DRILLING COMPANY**

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

Delaware

*(State or other jurisdiction of  
incorporation or organization)*

73-0618660

*(I.R.S. Employer Identification No.)*

1401 Enclave Parkway, Suite 600, Houston, Texas

*(Address of principal executive offices)*

77077

*(Zip code)*

(281) 406-2000

*(Registrant's telephone number, including area code)*

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer

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

As of July 31, 2007, 111,709,012 common shares were outstanding.

---

---

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>Part I. Financial Information</u></b>	3
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Condensed Balance Sheets (Unaudited) June 30, 2007 and December 31, 2006</u>	3
<u>Consolidated Condensed Statements of Operations (Unaudited) Three and Six Months Ended June 30, 2007 and 2006</u>	4
<u>Consolidated Condensed Statements of Cash Flows (Unaudited) Six Months Ended June 30, 2007 and 2006</u>	5
<u>Notes to the Unaudited Consolidated Condensed Financial Statements</u>	6-21
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22-33
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	34
<b><u>Part II. Other Information</u></b>	34
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	34
<u>Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	34
<u>Item 3. Defaults Upon Senior Securities</u>	34
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 5. Other Information</u>	35
<u>Item 6. Exhibits</u>	35
<u>Signatures</u>	36
Officer Certifications	
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 906</u>	
<u>Certification Pursuant to Section 906</u>	

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(Dollars in Thousands)**  
**(Unaudited)**

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 63,148	\$ 92,203
Marketable securities	39,200	62,920
Accounts and notes receivable, net	137,642	112,359
Rig materials and supplies	21,075	15,000
Deferred costs	9,343	6,662
Deferred income taxes	14,774	17,307
Other current assets	31,100	11,123
Total current assets	<u>316,282</u>	<u>317,574</u>
Property, plant and equipment less accumulated depreciation and amortization of \$609,929 at June 30, 2007 and \$570,650 at December 31, 2006	525,872	435,473
Goodwill	100,315	100,315
Other noncurrent assets	56,668	47,939
Total assets	<u>\$ 999,137</u>	<u>\$ 901,301</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 89,359	\$ 95,226
Accrued income taxes	12,345	6,677
Total current liabilities	<u>101,704</u>	<u>101,903</u>
Long-term debt	329,044	329,368
Other long-term liabilities	73,964	10,931
Long-term deferred tax liability	23,008	—
Contingencies (Note 9)	—	—
Stockholders' equity:		
Common stock	18,615	18,220
Capital in excess of par value	587,821	568,253
Accumulated deficit	<u>(135,019)</u>	<u>(127,374)</u>
Total stockholders' equity	<u>471,417</u>	<u>459,099</u>
Total liabilities and stockholders' equity	<u>\$ 999,137</u>	<u>\$ 901,301</u>

See accompanying notes to the unaudited consolidated condensed financial statements.

[Table of Contents](#)

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
(Dollars in Thousands Except Per Share and Weighted Average Shares Outstanding)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Drilling and rental revenues:</b>				
U.S. drilling	\$ 57,651	\$ 42,697	\$ 119,275	\$ 82,950
International drilling	61,196	72,972	120,870	152,802
Rental tools	31,430	30,319	61,405	57,570
<b>Total drilling and rental revenues</b>	<b>150,277</b>	<b>145,988</b>	<b>301,550</b>	<b>293,322</b>
<b>Drilling and rental operating expenses:</b>				
U.S. drilling	24,616	19,814	51,377	37,284
International drilling	50,617	57,854	96,400	119,226
Rental tools	12,521	10,969	23,684	21,439
Depreciation and amortization	19,642	17,715	37,701	34,672
<b>Total drilling and rental operating expenses</b>	<b>107,396</b>	<b>106,352</b>	<b>209,162</b>	<b>212,621</b>
Drilling and rental operating income	42,881	39,636	92,388	80,701
General and administration expense	(6,246)	(7,575)	(12,134)	(15,269)
Gain on disposition of assets, net	269	2,125	16,673	2,573
<b>Total operating income</b>	<b>36,904</b>	<b>34,186</b>	<b>96,927</b>	<b>68,005</b>
<b>Other income and (expense):</b>				
Interest expense	(5,985)	(8,199)	(12,315)	(17,300)
Changes in fair value of derivative positions	(28)	382	(409)	1,195
Interest income	1,712	2,039	3,496	3,445
Loss on extinguishment of debt	—	—	—	(2)
Minority interest	—	44	(1,000)	(920)
Other	70	3	77	(14)
<b>Total other income and (expense)</b>	<b>(4,231)</b>	<b>(5,731)</b>	<b>(10,151)</b>	<b>(13,596)</b>
Income before income taxes	32,673	28,455	86,776	54,409
<b>Income tax expense:</b>				
Current	6,613	(5,563)	28,625	—
Deferred	9,200	20,257	11,297	29,190
<b>Total income tax expense</b>	<b>15,813</b>	<b>14,694</b>	<b>39,922</b>	<b>29,190</b>
<b>Net income</b>	<b>\$ 16,860</b>	<b>\$ 13,761</b>	<b>\$ 46,854</b>	<b>\$ 25,219</b>
<b>Basic earnings per share:</b>				
Net income	\$ 0.15	\$ 0.13	\$ 0.43	\$ 0.24
<b>Diluted earnings per share:</b>				
Net income	\$ 0.15	\$ 0.13	\$ 0.43	\$ 0.24
<b>Number of common shares used in computing earnings per share:</b>				
Basic	109,740,528	107,082,784	108,760,980	105,783,424
Diluted	110,842,121	108,363,036	109,968,329	107,283,318

See accompanying notes to the unaudited consolidated condensed financial statements.

[Table of Contents](#)

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**(Dollars in Thousands)**  
**(Unaudited)**

	Six Months Ended June 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 46,854	\$ 25,219
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	37,701	34,672
Gain on disposition of assets	(16,673)	(2,573)
Deferred income tax expense	11,297	19,664
Expenses not requiring cash	6,600	5,828
Change in operating assets and liabilities	(48,594)	(3,767)
Net cash provided by operating activities	<u>37,185</u>	<u>79,043</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(129,637)	(80,242)
Proceeds from the sale of assets	21,974	2,123
Proceeds from insurance settlements	—	2,501
Purchase of marketable securities	(48,675)	(136,120)
Proceeds from sale of marketable securities	<u>72,395</u>	<u>126,550</u>
Net cash used in investing activities	<u>(83,943)</u>	<u>(85,188)</u>
<b>Cash flows from financing activities:</b>		
Principal payments under debt obligations	—	—
Proceeds from common stock offering	—	99,947
Proceeds from stock options exercised	15,791	6,641
Excess tax benefit from stock based compensation	<u>1,912</u>	<u>2,063</u>
Net cash provided by financing activities	<u>17,703</u>	<u>108,651</u>
Net increase (decrease) in cash and cash equivalents	(29,055)	102,506
Cash and cash equivalents at beginning of year	<u>92,203</u>	<u>60,176</u>
Cash and cash equivalents at end of period	<u>\$ 63,148</u>	<u>\$ 162,682</u>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 13,040	\$ 17,577
Income taxes paid	\$ 25,534	\$ 6,753

See accompanying notes to the unaudited consolidated condensed financial statements.

**PARKER DRILLING COMPANY AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

1. **General** — In the opinion of the management of Parker Drilling Company, the accompanying unaudited consolidated condensed financial statements reflect all adjustments (of a normally recurring nature) which are necessary for a fair presentation of (1) the financial position as of June 30, 2007 and December 31, 2006, (2) the results of operations for the three and six months ended June 30, 2007 and 2006, and (3) cash flows for the six months ended June 30, 2007 and 2006. Results for the six months ended June 30, 2007 are not necessarily indicative of the results that will be realized for the year ending December 31, 2007. The financial statements should be read in conjunction with our Form 10-K for the year ended December 31, 2006.

**Stock-Based Compensation** — Total stock-based compensation expense recognized under SFAS No. 123R for the three and six month periods ended June 30, 2007 was \$2.3 million and \$4.1 million respectively, all of which was related to restricted stock plan expense. Total stock-based compensation expense recognized under SFAS No. 123R for the three and six month periods ended June 30, 2006 was \$1.9 million and \$3.1 million respectively, of which \$1.9 million and \$3.0 million, respectively, was related to restricted stock plan expense. Stock-based compensation expense is included in our consolidated condensed income statement in “General and administration expense.” There were 8,334 unvested stock options at December 31, 2006 and none as of June 30, 2007. Total unrecognized compensation cost related to stock options granted under our plans was approximately \$1,200 at December 31, 2006 and zero at June 30, 2007. The Company had 1,307,800 outstanding and exercisable stock options as of June 30, 2007, the aggregate intrinsic value of which was \$3.5 million, with a weighted average exercise price of \$6.10. Unvested restricted stock awards at December 31, 2006 and June 30, 2007 were 1,556,485 shares and 1,430,822 shares, respectively. Total unrecognized compensation cost related to unamortized restricted stock awards was \$4.8 million as of December 31, 2006 and \$8.0 million as of June 30, 2007. There were 10,500 and 804,345 restricted shares granted (net of forfeitures, if any) to certain officers and key employees during the three and six month periods ended June 30, 2007, respectively. The remaining unrecognized compensation cost related to unamortized restricted stock awards will be amortized over a weighted-average vesting period of approximately one year.

During the six months ended June 30, 2006 the valuation assumptions used in our Black-Scholes option pricing model to estimate the fair value of stock options granted were 16.9 percent for expected volatility, 0.25 years expected term, 4.23 percent risk free interest rate and there was no expected dividend yield. There were no stock options granted in 2007.

The excess tax benefit realized for the tax deductions from options exercised and restricted stock vesting totaled \$1.9 million for the six months ended June 30, 2007, which has been reported as a financing cash inflow in the consolidated condensed statement of cash flows.

2. **Common Stock Offering** — In January 2006, we issued 8,900,000 shares of common stock pursuant to a Free Writing Prospectus dated January 17, 2006 and a Prospectus Supplement dated January 18, 2006. On January 23, 2006, we realized \$11.23 per share or a total of \$99.9 million of net proceeds before expenses, but after underwriter discount, from the offering.

[Table of Contents](#)

## NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)

## 3. Earnings Per Share ("EPS")

	Three Months Ended June 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income	<u>\$16,860,000</u>	109,740,528	<u>\$ 0.15</u>
Effect of dilutive securities:			
Stock options and restricted stock	—	1,101,593	—
Diluted EPS:			
Net income	<u>\$16,860,000</u>	110,842,121	<u>\$ 0.15</u>
	Six Months Ended June 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income	<u>\$46,854,000</u>	108,760,980	<u>\$ 0.43</u>
Effect of dilutive securities:			
Stock options and restricted stock	—	1,207,350	—
Diluted EPS:			
Net income	<u>\$46,854,000</u>	109,968,329	<u>\$ 0.43</u>
	Three Months Ended June 30, 2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income	<u>\$13,761,000</u>	107,082,784	<u>\$ 0.13</u>
Effect of dilutive securities:			
Stock options and restricted stock	—	1,280,252	—
Diluted EPS:			
Net income	<u>\$13,761,000</u>	108,363,036	<u>\$ 0.13</u>
	Six Months Ended June 30, 2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income	<u>\$25,219,000</u>	105,783,424	<u>\$ 0.24</u>
Effect of dilutive securities:			
Stock options and restricted stock	—	1,499,894	—
Diluted EPS:			
Net income	<u>\$25,219,000</u>	107,283,318	<u>\$ 0.24</u>

**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

**3. Earnings Per Share (“EPS”) (continued)**

Options to purchase 321,000 shares of common stock with exercise prices ranging from \$12.09 to \$12.19 per share were outstanding during the three months ended June 30, 2007, and options to purchase 371,000 shares of common stock with exercise prices ranging from \$10.81 to \$12.19 per share were outstanding during the six months ended June 30, 2007, but were not included in the computation of diluted EPS because the options’ exercise prices were greater than the average market price of the common shares. Options to purchase 2,277,000 shares of common stock with exercise prices ranging from \$8.88 to \$12.19 per share were outstanding during the three months ended June 30, 2006, and options to purchase 517,000 shares of common stock with exercise prices ranging from \$9.31 to \$12.19 per share were outstanding during the six months ended June 30, 2006 but were not included in the computation of diluted EPS because the options’ exercise prices were greater than the average market price of the common shares.

**4. Business Segments** — The primary services we provide are as follows: U.S. drilling, international drilling and rental tools. Information regarding our operations by industry segment for the three and six months ended June 30, 2007 and 2006 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(Dollars in Thousands)		(Dollars in Thousands)	
<b>Drilling and rental revenues:</b>				
U.S. drilling	\$ 57,651	\$ 42,697	\$ 119,275	\$ 82,950
International drilling	61,196	72,972	120,870	152,802
Rental tools	<u>31,430</u>	<u>30,319</u>	<u>61,405</u>	<u>57,570</u>
<b>Total drilling and rental revenues</b>	<b><u>\$ 150,277</u></b>	<b><u>\$ 145,988</u></b>	<b><u>\$ 301,550</u></b>	<b><u>\$ 293,322</u></b>
<b>Drilling and rental operating income:</b>				
U.S. drilling	\$ 25,281	\$ 17,341	\$ 52,755	\$ 35,067
International drilling	4,347	7,827	12,607	18,980
Rental tools	<u>13,253</u>	<u>14,468</u>	<u>27,026</u>	<u>26,654</u>
<b>Total drilling and rental operating income</b>	<b>42,881</b>	<b>39,636</b>	<b>92,388</b>	<b>80,701</b>
General and administration expense	(6,246)	(7,575)	(12,134)	(15,269)
Gain on disposition of assets, net	<u>269</u>	<u>2,125</u>	<u>16,673</u>	<u>2,573</u>
<b>Total operating income</b>	<b>36,904</b>	<b>34,186</b>	<b>96,927</b>	<b>68,005</b>
Interest expense	(5,985)	(8,199)	(12,315)	(17,300)
Changes in fair value of derivative positions	(28)	382	(409)	1,195
Loss on extinguishment of debt	—	—	—	(2)
Other	<u>1,782</u>	<u>2,086</u>	<u>2,573</u>	<u>2,511</u>
<b>Income before income taxes</b>	<b><u>\$ 32,673</u></b>	<b><u>\$ 28,455</u></b>	<b><u>\$ 86,776</u></b>	<b><u>\$ 54,409</u></b>

**5. Disposition of Assets** — During the first quarter of 2007 we sold workover barge Rigs 9 and 26 for proceeds of approximately \$20.5 million resulting in a recognized gain of \$15.1 million. These two rigs were classified as assets held for sale as of December 31, 2006. During the second quarter of 2006, we sold the remaining salvageable assets in connection with the loss of Rig 255 in Bangladesh that occurred in June 2005. The asset sales resulted in a gain of \$1.4 million during the period. In addition, we realized a gain of \$0.7 million in connection with the disposition of certain other equipment during the second quarter of 2006.



**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

6. **Accounting for Uncertainty in Income Taxes** — In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109” (“FIN 48”). This accounting statement prescribes financial statement recognition threshold and measurement criteria for tax positions taken or expected to be taken in tax returns.

The Company adopted FIN 48 effective January 1, 2007. As a result, the Company has increased its liability by \$54.5 million for unrecognized tax amounts related to various federal, state and international tax matters. Included in this amount is \$35.1 million of tax positions, that, if recognized, would have impacted the Company’s effective tax rate. The recognition of this liability is required under FIN 48 because of the uncertainty regarding the ultimate outcome of certain tax positions. Although the Company’s position regarding the ultimate outcome of these matters is unchanged, the Company is now required to record a liability at a lower threshold across the Company’s worldwide operations. The Company has accounted for the entire \$54.5 million as a reduction to the January 1, 2007 balance of retained earnings.

Of the \$54.5 million referred to above, \$49 million is related to Kazakhstan. As of June 30, 2007, we have a total liability of \$91.5 million accrued for Kazakhstan before the recognition of U.S. tax benefits, which net liability has been classified as non-current in our balance sheet. For a complete overview of this issue, see Kazakhstan Tax Claims in Note 9.

The Company has classified foreign currency exchange rate fluctuations, interest and penalties as a component of tax expense. On January 1, 2007, we recorded approximately \$41.3 million for interest and penalties related to uncertain tax positions. During the six months ended June 30, 2007, the Company recognized an additional liability of approximately \$5.9 million, comprising of foreign currency exchange rate fluctuations, interest and a release of a previously recognized liability. The Company does not expect that the unrecognized tax amounts will change significantly within the next twelve months.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business our returns are subject to examination by taxing authorities throughout the world.

**Income Tax Expense** — Income tax expense was \$15.8 million for the second quarter of 2007, as compared to income tax expense of \$14.7 million for the second quarter of 2006. Income tax for 2007 includes \$4.0 million of interest and foreign currency exchange rate fluctuations related to our FIN 48 calculation.

**7. Long-Term Debt**

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
	(Dollars in Thousands)	
Senior Notes:		
Interest rate floating (LIBOR + 4.75%), due 2010	\$ 100,000	\$ 100,000
Interest rate 9.625%, due 2013	<u>229,044</u>	<u>229,368</u>
Total debt	329,044	329,368
Less current portion	<u>—</u>	<u>—</u>
Total long-term debt	<u>\$ 329,044</u>	<u>\$ 329,368</u>

Our current \$40.0 million credit facility is available for general corporate purposes and to fund reimbursement obligations under letters of credit the banks issue on our behalf pursuant to this facility. Availability under the revolving credit facility is subject to a borrowing base limitation based on 85 percent of eligible receivables plus a value for eligible rental tools equipment. The credit facility calls for a borrowing base calculation only when the credit facility has outstanding loans, including letters of credit, totaling at least \$25.0 million. As of June 30, 2007, there were \$17.6 million in letters of credit outstanding and no loans.

**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

8. **Derivative Instruments** — We use derivative instruments to manage risks associated with interest rate fluctuations in connection with our \$100.0 million Senior Floating Rate Notes. These derivative instruments, which consist of variable-to-fixed interest rate swaps, do not meet the hedge criteria in SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and are therefore not designated as hedges. Accordingly, the change in the fair value of the interest rate swaps is recognized currently in earnings.

As of June 30, 2007, we had the following derivative instruments outstanding related to our interest rate swaps, which are included in “Other current assets” and “Other noncurrent assets” as determined by their termination dates:

Effective Date	Termination Date	Notional Amount (Dollars in Thousands)	Floating Rate	Fixed Rate	Fair Value
September 1, 2005	September 2, 2008	\$ 50,000	Three-month LIBOR plus 475 basis points	8.83%	\$699
September 1, 2005	September 4, 2007	\$ 50,000	Three-month LIBOR plus 475 basis points	8.48%	213
					<u>\$912</u>

Subsequent to June 30, 2007, we terminated one swap scheduled to expire in September 2008 and received \$0.7 million on July 17, 2007.

9. **Contingencies**

**Kazakhstan Tax Claims**

On October 12, 2005, the Kazakhstan Branch (“PKD Kazakhstan”) of Parker Drilling Company International Limited (“PDCIL”) received an Act of Tax Audit from the Ministry of Finance of Kazakhstan (“MinFin”) assessing PKD Kazakhstan an amount of KZT (Kazakhstan Tenge) 14.9 billion (approximately \$119.7 million). Approximately KZT 7.5 billion or \$60.6 million was assessed for import Value Added Tax (“VAT”), administrative fines and interest on equipment imported to perform the drilling contracts (the “VAT Assessment”) and approximately KZT 7.4 billion or \$59.1 million for corporate income tax, individual income tax and social tax, administrative fines and interest in connection with the reimbursements received from the client for the upgrade of Barge Rig 257 and other issues (the “Income Tax Assessment”).

The VAT and Income Tax Assessment were both appealed to the Astana City Court and on April 6, 2006, the Astana City Court issued an opinion in favor of PKD Kazakhstan on the Income Tax Assessment and in favor of MinFin on the VAT Assessment, but reduced the amount of the VAT Assessment. MinFin and PKD Kazakhstan both appealed the decision of the Astana City Court to the Civil Panel of the Supreme Court of Kazakhstan (“SCK”). On May 24, 2006, the Civil Panel of the SCK issued a decision upholding the ruling of the Astana City Court on the VAT Assessment. Consistent with its contractual obligations, on November 20, 2006, the client advanced the actual amount of the VAT Assessment and this amount has been remitted to MinFin. The client has also contractually agreed to reimburse PKD Kazakhstan for any incremental income taxes that PKD Kazakhstan incurs from the reimbursement of this VAT Assessment

Contrary to two previous rulings on this precise issue, the May 24, 2006, ruling of the Civil Panel of the SCK affirmed the Income Tax Assessment. PKD Kazakhstan immediately made application for a stay of execution of the ruling, based on the fact that the SCK has decided this issue in favor of PKD Kazakhstan on two previous occasions and because the decision is inconsistent with the US-Kazakhstan tax treaty, and also requested that the five-member supervisory panel of the SCK grant a supervisory review of the decision. On May 30, 2006, the SCK granted a stay of execution of the decision pending a determination of the five-member panel of the SCK whether or not to grant supervisory review of the decision.

**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

**9. Contingencies (continued)**

**Kazakhstan Tax Claims (continued)**

The SCK repeatedly postponed a decision on the issue of supervisory review, which postponement was apparently granted to allow the Competent Authorities from the U.S. and the Republic of Kazakhstan (“RoK”) to address this matter. Competent Authority review is a tax treaty procedure to resolve disputes, including which country may tax income covered under the treaty. In response to the petition initiated by PKD Kazakhstan and pursuant to the Mutual Agreement Procedures of the U.S.-Kazakhstan Tax Treaty (the “Tax Treaty”), the Competent Authority of the U.S. IRS Treaty Division and MinFin held meetings but were unable to achieve mutual agreement as to which country may tax the income in issue under the Tax Treaty.

On April 12, 2007, the SCK determined that the May 24, 2006, ruling of the SCK should be reviewed by a five member supervisory panel of the SCK indicating it had doubts as to the lawfulness and validity of the May 24, 2006 ruling, including whether or not the ruling takes into account double taxation under the Tax Treaty.

On July 30, 2007, the SCK affirmed the May 24, 2006 ruling upholding the income tax assessment of MinFin. On August 2, 2007, PKD Kazakhstan filed an appeal to the twelve member plenum of the SCK pursuant to an RoK law that provides relief can be granted if enforcement of the ruling would result in economic harm to the RoK. On August 7, 2007, MinFin issued a notice of assessment of corporate income taxes of approximately US\$40 million and interest of approximately US\$30 million. A liability associated with this claim has been fully accrued as described in Note 6. PKD Kazakhstan immediately filed a Complaint Against the Notice requesting that the double taxation issue be resolved pursuant to the Competent Authority procedure, that interest be waived since Parker has paid tax on this income and that enforcement be suspended pending resolution of the double taxation issue. Parker’s counsel has advised that the Complaint has been received by MinFin and that under RoK law any enforcement action is stayed pending resolution of the Complaint. The Company anticipates that resumption of the Competent Authority proceedings in the immediate future will address the double taxation issue, although the Company has no assurance as to the ultimate resolution of the double taxation issue.

**Bangladesh Claim**

In September 2005, a subsidiary of the Company was served with a lawsuit filed in the 152nd District Court of Harris County State of Texas on behalf of numerous citizens of Bangladesh claiming \$250 million in damages due to various types of property damage and personal injuries (none involving loss of life) arising as a result of two blowouts that occurred in Bangladesh in January and June 2005, although only the June 2005 blowout involved the Company. This case was dismissed against the subsidiary of the Company based on forum non conveniens, a legal defense raised by the subsidiary claiming that Houston, Texas, is not the appropriate location for this suit to be filed. The plaintiffs have appealed this dismissal; however the Company believes the plaintiffs’ prospects of being successful on appeal are remote.

**Asbestos-Related Claims**

In August 2004, the Company was notified that certain of its subsidiaries have been named, along with other defendants, in several complaints that have been filed in the Circuit Courts of the State of Mississippi by several hundred persons that allege that they were employed by some of the named defendants between approximately 1965 and 1986. The complaints name as defendants numerous other companies that are not affiliated with the Company, including companies that allegedly manufactured drilling related products containing asbestos that are the subject of the complaints.

**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

**9. Contingencies (continued)**

**Asbestos-Related Claims (continued)**

The complaints allege that the Company's subsidiaries and other drilling contractors used asbestos-containing products in offshore drilling operations, land-based drilling operations and in drilling structures, drilling rigs, vessels and other equipment and assert claims based on, among other things, negligence and strict liability and claims under the Jones Act and that the Plaintiffs are entitled to monetary damages. Based on the report of the special master, these complaints have been severed and venue of the claims transferred to the county in which the plaintiff resides or the county in which the cause of action allegedly accrued. Subsequent to the filing of amended complaints, Parker has joined with other co-defendants in filing motions to compel discovery to determine what plaintiffs have an employment relationship with which defendant, including whether or not any plaintiffs have an employment relationship with subsidiaries of the Company. Out of 528 amended single-plaintiff complaints filed to date, eleven plaintiffs have identified Parker Drilling or one of its affiliates as a defendant.

The subsidiaries named in these asbestos-related lawsuits intend to defend themselves vigorously and, based on the information available to the Company at this time, the Company does not expect the outcome to have a material adverse effect on its financial condition, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these lawsuits.

**Gulfoo Site**

In 2003 the Company received an information request under CERCLA designating a subsidiary of the Company as a potentially responsible party with respect to the Gulfoo Marine Maintenance, Inc. Superfund Site in Freeport, Texas (EPA No. TX 055144539). We responded to this request in 2003 and have been in contact with EPA regarding the response. In July 2005, EPA issued a Unilateral Administrative Order for remedial investigation to five potentially responsible parties. The EPA order did not name us. According to EPA, three of the potentially responsible parties who received the order are currently performing a remedial investigation of the site to define the nature and extent of the contamination there. Based on the currently available information, we do not believe we have responsibility for the Gulfoo Marine Site. Among other reasons, our subsidiary, Parker Drilling Offshore Company neither owned nor operated the site during the relevant time period, and is not otherwise connected to the site. If a claim were to be brought against us in the future by the United States or the parties performing the work, we would defend that action vigorously. The amount of any such future claim cannot be estimated with accuracy until after the remedial investigation is completed, but it is not expected to be material to our business or financial condition.

**Freight Forwarding and Customs Agent Request**

The U.S. Department of Justice has recently requested us to provide information regarding our utilization of the services of a freight forwarding and customs agent during the past five years to verify if the services provided by this freight forwarding and customs agent were in compliance with the Foreign Corrupt Practices Act. It is our understanding that a similar request was sent to several other service contractors. We are fully cooperating with the request for information.

10. **Recent Accounting Pronouncements** — In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities-Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 allows certain financial assets and liabilities to be recognized, at the Company's election, at fair market value, with any gains or losses for the period recorded in the statement of income. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective for fiscal years beginning after November 15, 2007. The Company has not determined the impact on its Consolidated Financial Statements, if any, of the adoption of SFAS No. 159.

**NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

11. **Parent, Guarantor, Non-Guarantor Unaudited Consolidating Condensed Financial Statements** — Set forth on the following pages are the unaudited consolidating condensed financial statements of (i) Parker Drilling, (ii) our restricted subsidiaries that are guarantors of the Senior Notes and (iii) our restricted and unrestricted subsidiaries that are not guarantors of the Senior Notes. All of our Senior Notes are guaranteed by substantially all of the restricted subsidiaries of Parker Drilling. There are currently no restrictions on the ability of the restricted subsidiaries to transfer funds to Parker Drilling in the form of cash dividends, loans or advances. Parker Drilling is a holding company with no operations, other than through its subsidiaries.

The non-guarantor subsidiaries are AralParker (a Kazakhstan closed joint stock company, owned 80 percent by Parker Drilling (Kazakhstan), LLC and 20 percent by Aralnedra, CJSC), Casuarina Limited (a wholly-owned captive insurance company), KDN Drilling Limited, Mallard Drilling of South America, Inc., Mallard Drilling of Venezuela, Inc., Parker Drilling Investment Company, Parker Drilling (Nigeria) Limited, Parker Drilling Company (Bolivia) S.A., Parker Drilling Company Kuwait Limited, Parker Drilling Company Limited (Bahamas), Parker Drilling Company of New Zealand Limited, Parker Drilling Company of Sakhalin, Parker Drilling de Mexico, S. de R.L. de C.V., Parker Drilling International of New Zealand Limited, Parker Drilling Tengiz, Ltd., PD Servicios Integrales, S. de R.L. de C.V., PKD Sales Corporation, Parker SMNG Drilling Limited Liability Company (owned 50 percent by Parker Drilling Company International, LLC), Parker Drilling Asia Pacific, LLC, Parker Drilling Kazakhstan B.V., Parker Drilling Netherlands B.V., Parker Drilling International B.V., Parker Drilling Offshore B.V., Parker Drilling Overseas B.V., Parker Drilling Russia B.V., Parker Drilling Dutch B.V., Parker Drilling AME Limited, Parker Drillsource, LLC, Parker 3source, LLC, Parker Enex, LLC, Parker Hungary Rig Holdings Limited Liability Company, Parker 5272, LLC, Parker Drilling Spain Rig Services S.L., Parker Cyprus Leasing Limited, Parker Cyprus Ventures Limited, PD International Holdings C.V., PD Dutch Holdings C.V., PD Offshore Holdings C.V., PD Selective Holdings, C.V., PD Labor Services, Ltd., and PD Labor Sourcing, Ltd. We are providing unaudited consolidating condensed financial information of the parent, Parker Drilling, the guarantor subsidiaries, and the non-guarantor subsidiaries as of June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006. The condensed consolidating financial statements present investments in both consolidated and unconsolidated subsidiaries using the equity method of accounting.

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED BALANCE SHEET**  
(Dollars in Thousands)

	June 30, 2007				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 33,149	\$ 12,858	\$ 17,141	\$ —	\$ 63,148
Marketable securities	37,200	2,000	—	—	39,200
Accounts and notes receivable, net	75,241	169,118	42,291	(149,008)	137,642
Rig materials and supplies	—	11,806	9,269	—	21,075
Deferred costs	—	5,140	4,203	—	9,343
Other current assets	35,358	9,426	1,036	54	45,874
<b>Total current assets</b>	<b>180,948</b>	<b>210,348</b>	<b>73,940</b>	<b>(148,954)</b>	<b>316,282</b>
Property, plant and equipment, net	134	438,670	86,946	122	525,872
Assets held for sale	—	—	—	—	—
Goodwill	—	100,315	—	—	100,315
Investment in subsidiaries and intercompany advances	708,900	891,582	21,828	(1,622,310)	—
Other noncurrent assets	15,946	26,053	14,669	—	56,668
<b>Total assets</b>	<b>\$ 905,928</b>	<b>\$1,666,968</b>	<b>\$ 197,383</b>	<b>\$(1,771,142)</b>	<b>\$ 999,137</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable and accrued liabilities	46,324	195,734	45,266	(197,965)	\$ 89,359
Accrued income taxes	1,636	9,125	1,584	—	12,345
<b>Total current liabilities</b>	<b>47,960</b>	<b>204,859</b>	<b>46,850</b>	<b>(197,965)</b>	<b>101,704</b>
Long-term debt	329,044	—	—	—	329,044
Other long-term liabilities	(34,702)	103,797	4,869	—	73,964
Long-term deferred tax liability	17,626	(620)	6,002	—	23,008
Intercompany payables	74,583	580,356	32,359	(687,298)	—
Stockholders' equity:					
Common stock	18,615	39,899	21,153	(61,052)	18,615
Capital in excess of par value	587,821	1,041,930	86,553	(1,128,483)	587,821
Retained earnings (accumulated deficit)	(135,019)	(303,253)	(403)	303,656	(135,019)
<b>Total stockholders' equity</b>	<b>471,417</b>	<b>778,576</b>	<b>107,303</b>	<b>(885,879)</b>	<b>471,417</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 905,928</b>	<b>\$1,666,968</b>	<b>\$ 197,383</b>	<b>\$(1,771,142)</b>	<b>\$ 999,137</b>

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED BALANCE SHEET**  
(Dollars in Thousands)

	December 31, 2006				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 60,029	\$ 14,367	\$ 17,807	\$ —	\$ 92,203
Marketable securities	60,920	2,000	—	—	62,920
Accounts and notes receivable, net	53,844	143,905	33,625	(119,015)	112,359
Rig materials and supplies	—	7,173	7,827	—	15,000
Deferred costs	—	6,321	341	—	6,662
Other current assets	18,105	8,969	1,319	37	28,430
<b>Total current assets</b>	<b>192,898</b>	<b>182,735</b>	<b>60,919</b>	<b>(118,978)</b>	<b>317,574</b>
Property, plant and equipment, net	134	354,356	80,861	122	435,473
Assets held for sale	—	4,828	—	—	4,828
Goodwill	—	100,315	—	—	100,315
Investment in subsidiaries and intercompany advances	694,050	846,800	(8,053)	(1,532,797)	—
Other noncurrent assets	18,043	19,774	5,294	—	43,111
<b>Total assets</b>	<b>\$ 905,125</b>	<b>\$1,508,808</b>	<b>\$ 139,021</b>	<b>\$(1,651,653)</b>	<b>\$ 901,301</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 44,667	\$ 175,092	\$ 44,611	\$ (169,144)	\$ 95,226
Accrued income taxes	(10,514)	17,039	152	—	6,677
<b>Total current liabilities</b>	<b>34,153</b>	<b>192,131</b>	<b>44,763</b>	<b>(169,144)</b>	<b>101,903</b>
Long-term debt	329,368	—	—	—	329,368
Other long-term liabilities	1,596	9,030	265	40	10,931
Intercompany payables	80,909	544,250	37,219	(662,378)	—
Stockholders' equity:					
Common stock	18,220	39,899	21,251	(61,150)	18,220
Capital in excess of par value	568,253	1,013,736	34,526	(1,048,262)	568,253
Retained earnings (accumulated deficit)	(127,374)	(290,238)	997	289,241	(127,374)
<b>Total stockholders' equity</b>	<b>459,099</b>	<b>763,397</b>	<b>56,774</b>	<b>(820,171)</b>	<b>459,099</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 905,125</b>	<b>\$1,508,808</b>	<b>\$ 139,021</b>	<b>\$(1,651,653)</b>	<b>\$ 901,301</b>

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
(Dollars in Thousands)

	Three months ended June 30, 2007				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Drilling and rental revenues	\$ —	\$136,568	\$ 22,036	\$ (8,327)	\$ 150,277
Drilling and rental operating expenses	1	75,897	20,188	(8,332)	87,754
Depreciation and amortization	<u>—</u>	<u>18,484</u>	<u>1,158</u>	<u>—</u>	<u>19,642</u>
Drilling and rental operating income	<u>(1)</u>	<u>42,187</u>	<u>690</u>	<u>5</u>	<u>42,881</u>
General and administration expense (1)	(42)	(6,177)	(27)	—	(6,246)
Gain (loss) on disposition of assets, net	<u>—</u>	<u>253</u>	<u>16</u>	<u>—</u>	<u>269</u>
Total operating income (loss)	<u>(43)</u>	<u>36,263</u>	<u>679</u>	<u>5</u>	<u>36,904</u>
Other income and (expense):					
Interest expense	(7,175)	(11,795)	(165)	13,150	(5,985)
Changes in fair value of derivative positions	(28)	—	—	—	(28)
Interest income	11,989	2,059	814	(13,150)	1,712
Loss on extinguishment of debt	—	—	—	—	—
Minority interest	—	—	—	—	—
Other	5	70	—	(5)	70
Equity in net earnings of subsidiaries	<u>18,722</u>	<u>—</u>	<u>—</u>	<u>(18,722)</u>	<u>—</u>
Total other income and (expense)	<u>23,513</u>	<u>(9,666)</u>	<u>649</u>	<u>(18,727)</u>	<u>(4,231)</u>
Income (loss) before income taxes	23,470	26,597	1,328	(18,722)	32,673
Income tax expense :					
Current	3,821	1,409	1,383	—	6,613
Deferred	<u>2,789</u>	<u>6,125</u>	<u>286</u>	<u>—</u>	<u>9,200</u>
Income tax expense	<u>6,610</u>	<u>7,534</u>	<u>1,669</u>	<u>—</u>	<u>15,813</u>
Net income (loss)	<u>\$16,860</u>	<u>\$ 19,063</u>	<u>\$ (341)</u>	<u>\$ (18,722)</u>	<u>\$ 16,860</u>

(1) All field operations general and administration expenses are included in operating expenses.



**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
**(Dollars in Thousands)**

	Three Months Ended June 30, 2006				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Drilling and rental revenues	\$ —	\$130,444	\$ 28,621	\$ (13,077)	\$ 145,988
Drilling and rental operating expenses	—	69,377	32,337	(13,077)	88,637
Depreciation and amortization	—	16,725	990	—	17,715
Drilling and rental operating income (loss)	—	44,342	(4,706)	—	39,636
General and administration expense (1)	(27)	(7,547)	(1)	—	(7,575)
Gain (loss) on disposition of assets, net	(6)	2,115	16	—	2,125
Total operating income (loss)	(33)	38,910	(4,691)	—	34,186
Other income and (expense):					
Interest expense	(9,378)	(11,803)	(445)	13,427	(8,199)
Changes in fair value of derivative positions	382	—	—	—	382
Interest income	12,594	2,012	860	(13,427)	2,039
Loss on extinguishment of debt	—	—	—	—	—
Minority interest	—	—	44	—	44
Other	11	(89)	81	—	3
Equity in net earnings of subsidiaries	21,161	—	—	(21,161)	—
Total other income and (expense)	24,770	(9,880)	540	(21,161)	(5,731)
Income (loss) before income taxes	24,737	29,030	(4,151)	(21,161)	28,455
Income tax expense (benefit)					
Current	279	3,590	94	—	3,963
Deferred	10,697	(172)	206	—	10,731
Income tax expense	10,976	3,418	300	—	14,694
Net income (loss)	\$13,761	\$ 25,612	\$ (4,451)	\$ (21,161)	\$ 13,761

(1) All field operations general and administration expenses are included in operating expenses.

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
(Dollars in Thousands)

	Six months ended June 30, 2007				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Drilling and rental revenues	\$ —	\$274,706	\$ 41,878	\$ (15,034)	\$ 301,550
Drilling and rental operating expenses	1	149,471	37,028	(15,039)	171,461
Depreciation and amortization	—	35,505	2,196	—	37,701
Drilling and rental operating income	(1)	89,730	2,654	5	92,388
General and administration expense (1)	(83)	(11,963)	(88)	—	(12,134)
Gain (loss) on disposition of assets, net	—	16,677	(4)	—	16,673
<b>Total operating income (loss)</b>	<b>(84)</b>	<b>94,444</b>	<b>2,562</b>	<b>5</b>	<b>96,927</b>
Other income and (expense):					
Interest expense	(14,696)	(23,591)	(401)	26,373	(12,315)
Changes in fair value of derivative positions	(409)	—	—	—	(409)
Interest income	24,111	4,157	1,601	(26,373)	3,496
Loss on extinguishment of debt	—	—	—	—	—
Minority interest	—	—	(1,000)	—	(1,000)
Other	5	64	13	(5)	77
Equity in net earnings of subsidiaries	58,281	—	—	(58,281)	—
<b>Total other income and (expense)</b>	<b>67,292</b>	<b>(19,370)</b>	<b>213</b>	<b>(58,286)</b>	<b>(10,151)</b>
<b>Income (loss) before income taxes</b>	<b>67,208</b>	<b>75,074</b>	<b>2,775</b>	<b>(58,281)</b>	<b>86,776</b>
Income tax expense :					
Current	17,153	9,468	2,004	—	28,625
Deferred	3,201	7,541	555	—	11,297
<b>Income tax expense</b>	<b>20,354</b>	<b>17,009</b>	<b>2,559</b>	<b>—</b>	<b>39,922</b>
<b>Net income (loss)</b>	<b>\$ 46,854</b>	<b>\$ 58,065</b>	<b>\$ 216</b>	<b>\$ (58,281)</b>	<b>\$ 46,854</b>

(1) All field operations general and administration expenses are included in operating expenses.

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
**(Dollars in Thousands)**

	Six Months Ended June 30, 2006				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Drilling and rental revenues	\$ —	\$248,190	\$ 71,301	\$ (26,169)	\$ 293,322
Drilling and rental operating expenses	—	130,566	73,552	(26,169)	177,949
Depreciation and amortization	—	32,662	2,010	—	34,672
Drilling and rental operating income	—	84,962	(4,261)	—	80,701
General and administration expense (1)	(82)	(15,177)	(10)	—	(15,269)
Gain (loss) on disposition of assets, net	(6)	2,516	63	—	2,573
Total operating income (loss)	(88)	72,301	(4,208)	—	68,005
Other income and (expense):					
Interest expense	(19,665)	(23,599)	(955)	26,919	(17,300)
Changes in fair value of derivative positions	1,195	—	—	—	1,195
Interest income	24,668	4,029	1,667	(26,919)	3,445
Loss on extinguishment of debt	(2)	—	—	—	(2)
Minority interest	—	—	(920)	—	(920)
Other	11	(106)	81	—	(14)
Equity in net earnings of subsidiaries	40,104	—	—	(40,104)	—
Total other income and (expense)	46,311	(19,676)	(127)	(40,104)	(13,596)
Income (loss) before income taxes	46,223	52,625	(4,335)	(40,104)	54,409
Income tax expense (benefit):					
Current	1,023	6,601	1,902	—	9,526
Deferred	19,981	(462)	145	—	19,664
Income tax expense	21,004	6,139	2,047	—	29,190
Net income (loss)	\$ 25,219	\$ 46,486	\$ (6,382)	\$ (40,104)	\$ 25,219

(1) All field operations general and administration expenses are included in operating expenses.

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
(Dollars in Thousands)

	Six months ended June 30, 2007				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 46,854	\$ 58,065	\$ 216	\$ (58,281)	\$ 46,854
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	35,505	2,196	—	37,701
Amortization of debt issuance and premium	—	—	—	—	—
Loss on extinguishment of debt	—	—	—	—	—
Loss/(gain) on disposition of assets	—	(16,677)	4	—	(16,673)
Deferred tax expense	3,201	7,541	555	—	11,297
Other	6,000	600	—	—	6,600
Equity in net earnings of subsidiaries	(58,281)	—	—	58,281	—
Change in operating assets and liabilities	<u>(30,477)</u>	<u>(57,507)</u>	<u>39,390</u>	<u>—</u>	<u>(48,594)</u>
Net cash provided by (used in) operating activities	<u>(32,703)</u>	<u>27,527</u>	<u>42,361</u>	<u>—</u>	<u>37,185</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	—	(109,071)	(20,566)	—	(129,637)
Proceeds from the sale of assets	—	9,694	12,280	—	21,974
Proceeds from insurance settlements	—	—	—	—	—
Purchase of marketable securities	(48,675)	—	—	—	(48,675)
Sale of marketable securities	<u>72,395</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>72,395</u>
Net cash (used in) investing activities	<u>23,720</u>	<u>(99,377)</u>	<u>(8,286)</u>	<u>—</u>	<u>(83,943)</u>
<b>Cash flows from financing activities:</b>					
Principal payments under debt obligations	—	—	—	—	—
Proceeds from common stock offering	—	—	—	—	—
Proceeds from stock options exercised	15,791	—	—	—	15,791
Excess tax benefit from stock based compensation	1,912	—	—	—	1,912
Intercompany advances, net	<u>(35,600)</u>	<u>70,341</u>	<u>(34,741)</u>	<u>—</u>	<u>—</u>
Net cash provided by (used in) financing activities	<u>(17,897)</u>	<u>70,341</u>	<u>(34,741)</u>	<u>—</u>	<u>17,703</u>
Net increase in cash and cash equivalents	(26,880)	(1,509)	(666)	—	(29,055)
Cash and cash equivalents at beginning of year	<u>60,029</u>	<u>14,367</u>	<u>17,807</u>	<u>—</u>	<u>92,203</u>
Cash and cash equivalents at end of period	<u>\$ 33,149</u>	<u>\$ 12,858</u>	<u>\$ 17,141</u>	<u>\$ —</u>	<u>\$ 63,148</u>

**PARKER DRILLING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
(Dollars in Thousands)

	Six Months Ended June 30, 2006				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 25,219	\$ 46,486	\$ (6,382)	\$ (40,104)	\$ 25,219
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	—	32,662	2,010	—	34,672
Gain on disposition of assets	6	(2,516)	(63)	—	(2,573)
Deferred tax expense (benefit)	19,981	(462)	145	—	19,664
Expenses not requiring cash	5,228	600	—	—	5,828
Equity in net earnings of subsidiaries	(40,104)	—	—	40,104	—
Change in operating assets and liabilities	<u>(10,618)</u>	<u>(6,210)</u>	<u>13,061</u>	<u>—</u>	<u>(3,767)</u>
Net cash provide by (used in) operating activities	<u>(288)</u>	<u>70,560</u>	<u>8,771</u>	<u>—</u>	<u>79,043</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	—	(78,096)	(2,146)	—	(80,242)
Proceeds from the sale of assets	(6)	1,395	734	—	2,123
Proceeds from insurance settlements	—	2,501	—	—	2,501
Purchase of marketable securities	(136,120)	—	—	—	(136,120)
Proceeds from sale of marketable securities	<u>126,550</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>126,550</u>
Net cash used in investing activities	<u>(9,576)</u>	<u>(74,200)</u>	<u>(1,412)</u>	<u>—</u>	<u>(85,188)</u>
<b>Cash flows from financing activities:</b>					
Proceeds from common stock offering	99,947	—	—	—	99,947
Proceeds from stock options exercised	6,641	—	—	—	6,641
Excess tax benefit from stock-based compensation	2,063	—	—	—	2,063
Intercompany advances, net	<u>(3,421)</u>	<u>3,050</u>	<u>371</u>	<u>—</u>	<u>—</u>
Net cash provided by financing activities	<u>105,230</u>	<u>3,050</u>	<u>371</u>	<u>—</u>	<u>108,651</u>
Net increase (decrease) in cash and cash equivalents	95,366	(590)	7,730	—	102,506
Cash and cash equivalents at beginning of year	<u>31,978</u>	<u>11,145</u>	<u>17,053</u>	<u>—</u>	<u>60,176</u>
Cash and cash equivalents at end of period	<u>\$ 127,344</u>	<u>\$ 10,555</u>	<u>\$ 24,783</u>	<u>\$ —</u>	<u>\$ 162,682</u>

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

**DISCLOSURE NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements contained in this Form 10-Q, other than statements of historical facts, are "forward-looking statements" for purposes of these provisions, including any statements regarding:

- stability of prices and demand for oil and natural gas;
- levels of oil and natural gas exploration and production activities;
- demand for contract drilling and drilling related services and demand for rental tools;
- our future operating results and profitability;
- our future rig utilization, dayrates and rental tools activity;
- entering into new, or extending existing, drilling contracts and our expectations concerning when our rigs will commence operations under such contracts;
- growth through acquisitions of companies or assets;
- construction or upgrades of rigs and expectations regarding when these rigs will commence operations;
- capital expenditures for acquisition of rigs, construction of new rigs or major upgrades to existing rigs;
- entering into joint venture agreements with local companies;
- our future liquidity;
- availability and sources of funds to reduce our debt and expectations of when debt will be reduced;
- the outcome of pending or future legal proceedings, tax assessments and other claims;
- the availability of insurance coverage for pending or future claims;
- the enforceability of contractual indemnification in relation to pending or future claims;
- compliance with covenants under our senior credit facility and indentures for our senior notes; and
- organic growth of our operations.

In some cases, you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "outlook," "may," "should," "will" and "would" or similar words. Forward-looking statements are based on certain assumptions and analyses made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors they believe are relevant. Although our management believes that their assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of our control. The following factors, as well as any other cautionary language included in this Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our "forward-looking statements:" worldwide economic and business conditions that adversely affect market conditions and/or the cost of doing business;

**DISCLOSURE NOTE REGARDING FORWARD-LOOKING STATEMENTS** *(continued)*

- worldwide economic and business conditions that adversely affect market conditions and/or the cost of doing business;
- the U.S. economy and the demand for natural gas;
- fluctuations in the market prices of oil and gas;
- imposition of unanticipated trade restrictions;
- unanticipated operating hazards and uninsured risks;
- political instability, terrorism or war;
- governmental regulations, including changes in accounting rules or tax laws or ability to remit funds to the U.S., that adversely affect the cost of doing business;
- adverse environmental events;
- adverse weather conditions;
- changes in the concentration of customer and supplier relationships;
- unexpected cost increases for new construction and upgrade and refurbishment projects;
- delays in obtaining components for capital projects and in ongoing operational maintenance;
- shortages of skilled labor;
- unanticipated cancellation of contracts by operators without cause;
- breakdown of equipment;
- other operational problems including delays in start-up of operations
- changes in competition;
- the effect of litigation and contingencies; and
- other similar factors (some of which are discussed in documents referred to in this Form 10-Q).

Each “forward-looking statement” speaks only as of the date of this Form 10-Q, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Before you decide to invest in our securities, you should be aware that the occurrence of the events described in these risk factors and elsewhere in this Form 10-Q could have a material adverse effect on our business, results of operations, financial condition and cash flows.

## OUTLOOK AND OVERVIEW

Our international land rigs continued their transition to new contracts and we anticipate that full scale operations under these new contracts will drive significant revenue increases in the third and fourth quarters. Our barge drilling operations in the U.S. Gulf of Mexico again provided the primary basis for excellent results in the second quarter of 2007 and we expect continued strong results from our barge drilling operations through the end of 2007. Our rental tools operations provided yet another good quarter and we anticipate an increase in rental activity as additional equipment continues to be delivered.

### **Overview**

Drilling and rental operating income was up eight percent over the second quarter of 2006 due to the strength of the drilling barge operations in the U.S. Gulf of Mexico. Customer preference for our rigs and operational performance drove both utilization and dayrates although the market continued to soften. Strategic upgrades and major refurbishments of two thirds of our barge rigs over the last two years have served us well. Overall, our Gulf of Mexico barge fleet has reported increasing dayrates over the past 16 consecutive quarters. Utilization for our deep barges averaged 93 percent for the second quarter of 2007 and 54 percent for our intermediate barges.

Quail Tools contributed \$13.3 million in operating income in the second quarter of 2007, which was down \$1.2 million from the second quarter of 2006. This decline was the result of supplier delays in delivery of new rental equipment and customer delays on deepwater projects in the U.S. market.

---



## **OUTLOOK AND OVERVIEW (continued)**

### **Overview (continued)**

Our international drilling operating income was down \$3.5 million in the second quarter of 2007 as compared to the second quarter of 2006 as we continued to deploy rigs whose contracts ended in 2006 to new contracts. Operations under five of these new contracts commenced late in the second quarter and early in the third quarter and seven are anticipated to commence during the remainder of the third and the fourth quarters of 2007. In the second quarter of 2006, we had one rig still under contract on our Tengizchevroil (“TCO”) contract, an O&M contract for a water injection well on Sakhalin Island and received lump sum demobilization fees as our rigs completed contracts in Turkmenistan. Also, we sold our Nigerian barge assets in the third quarter of 2006 and exited the country as a part of our strategic realignment of assets.

On July 5, 2007, we closed on a public offering of \$125.0 million aggregate principal amount of 2.125% convertible senior notes due 2102 that will reduce our cash interest costs significantly. Capital expenditures through June 30, 2007 totaled \$129.6 million, including \$3.4 million of capitalized interest relating to rig construction projects.

### **Outlook**

Rig refurbishments have contributed to our operating performance in the GOM barge drilling market as we continue to execute our strategic plan to provide preferred rigs. Three rigs completed refurbishment during the second quarter of 2007 with all three mobilizing for contracts in June. The upgrades associated with these refurbishments are a significant factor in achieving our current utilization of 100 percent for both deep and intermediate drilling barges.

Following initial delays in delivery of equipment expected in the second quarter, Quail Tools has now received the majority of the rental equipment ordered more than a year ago. As a result, Quail has experienced a 10 percent increase in rental activity since the end of the second quarter.

In Mexico, we accomplished several start-ups under our new five-rig contract at significantly higher dayrates. Rig 256 was mobilized to Mexico after completing a well in the U. S. and began drilling in Mexico in mid-June. Rigs 165 and 221, which had been stacked since completing operations in Mexico in 2006, began drilling in the last week of May and the first week of June, respectively. Two of our new build 2,000 horsepower rigs slated for this five rig contract are currently rigging up.

The significant growth potential of the Northern Africa and Middle East markets on which we began to focus over a year ago continues to develop positively. The other two of our four 2,000 horsepower new build rigs are now operating in Algeria; one commenced in late June and the other in mid-July. Another previously stacked rig has been mobilized to Libya and is readying for a third quarter start up. Two of the six rigs under contract in our Saudi Arabia joint venture are drilling and another three are readying for operation, with the sixth scheduled for arrival during the third quarter. The opportunities for additional work in this region in 2008 are strong.

In our CIS region, two additional rigs mobilized to begin a new three year contract in the Karachaganak region of Kazakhstan during the second quarter, with one spudding in late July and one scheduled for spud in August. Rig 236 completed its work under contract in western Kazakhstan and is mobilizing to a new, one-year contract in the same area. The Asia Pacific region experienced a temporary slowdown as only one-third of our rigs in New Zealand and Indonesia operated during the first six months of 2007. The two rigs stacked in New Zealand will return to work in the third quarter under new contracts, and one rig will return to work in Indonesia as well. Utilization remains at 100 percent for our two rigs in Papua New Guinea.

**OUTLOOK AND OVERVIEW (continued)**

**Outlook (continued)**

**Recent Events**

As noted in Note 9, we have been contesting an income tax assessment of the Ministry of Finance (“MinFin”) of the Republic of Kazakhstan (“RoK”) relating to some reimbursements received in the United States for costs incurred in performing modifications to a barge drilling rig that was later transported to the RoK waters of the North Caspian Sea. We received two prior rulings of the Supreme Court of the RoK (“SCK”) which determined that the income tax assessment was improper, but in May 2006 the SCK reversed its earlier ruling and upheld the assessment and the supervisory panel of the SCK affirmed this ruling on July 30, 2007. We have appealed this ruling to the twelve member plenum of the SCK on the grounds that any formal assessment or enforcement of the income tax assessment is in violation of the US-Kazakhstan Income Tax Treaty which will result in adverse economic consequences to the RoK. We received a formal assessment of income taxes from MinFin to which we immediately filed a Complaint Against the Notice requesting a resumption of the Competent Authority proceedings to resolve the double taxation issue, that interest be waived and that any enforcement of the assessment be stayed pending resolution of the double taxation issue. Parker’s counsel has advised that the Complaint has been received by MinFin and that under RoK law any enforcement action is stayed pending resolution of the Complaint. The Company anticipates that resumption of the Competent Authority proceedings in the immediate future will address the double taxation issue, although the Company has no assurance as to the ultimate resolution of the double taxation issue.

**RESULTS OF OPERATIONS**

**Three Months Ended June 30, 2007 Compared with Three Months Ended June 30, 2006**

We recorded net income of \$16.9 million for the three months ended June 30, 2007, as compared to net income of \$13.8 million for the three months ended June 30, 2006. Drilling and rental operating income was \$42.9 million for the three months ended June 30, 2007 as compared to \$39.6 million for the three months ended June 30, 2006. Gain on disposition of assets for the current quarter was \$0.3 million as compared to \$2.1 million in the comparable quarter in 2006.

The following is an analysis of our operating results for the comparable quarters:

	Three Months Ended June 30,			
	2007		2006	
	(Dollars in Thousands)			
<b>Drilling and rental revenues:</b>				
U.S. drilling	\$ 57,651	38%	\$ 42,697	29%
International drilling	61,196	41%	72,972	50%
Rental tools	<u>31,430</u>	<u>21%</u>	<u>30,319</u>	<u>21%</u>
<b>Total drilling and rental revenues</b>	<b><u>\$150,277</u></b>	<b><u>100%</u></b>	<b><u>\$145,988</u></b>	<b><u>100%</u></b>
<b>Drilling and rental operating income:</b>				
U.S. drilling gross margin excluding depreciation and amortization (1)	\$ 33,035	57%	\$ 22,883	54%
International drilling gross margin excluding depreciation and amortization (1)	10,579	17%	15,118	21%
Rental tools gross margin excluding depreciation and amortization (1)	18,909	60%	19,350	64%
Depreciation and amortization	<u>(19,642)</u>		<u>(17,715)</u>	
<b>Total drilling and rental operating income (2)</b>	<b>42,881</b>		<b>39,636</b>	
General and administration expense	(6,246)		(7,575)	
Gain on disposition of assets, net	<u>269</u>		<u>2,125</u>	
<b>Total operating income</b>	<b><u>\$ 36,904</u></b>		<b><u>\$ 34,186</u></b>	

(1) Drilling and rental gross margins, excluding depreciation and amortization, are computed as drilling and rental revenues less direct drilling and rental operating expenses, excluding depreciation and amortization expense; drilling and rental gross margin percentages are computed as drilling and rental gross margin, excluding depreciation and amortization, as a percent of drilling and rental revenues. The gross margin amounts, excluding depreciation and amortization, and gross margin percentages should not be used as a substitute for those amounts reported under accounting principles generally accepted in the United States (“GAAP”). However, we monitor our business segments based on several criteria, including drilling and rental gross margin. Management believes that this information is useful to our investors because it more accurately reflects cash generated by segment. Such gross margin amounts are reconciled to our most comparable GAAP measure as follows:

**RESULTS OF OPERATIONS (continued)**

	<u>U.S. Drilling</u>	<u>International Drilling</u>	<u>Rental Tools</u>
	(Dollars in Thousands)		
<b>Three Months Ended June 30, 2007</b>			
Drilling and rental operating income (2)	\$ 25,281	\$ 4,347	\$ 13,253
Depreciation and amortization	<u>7,754</u>	<u>6,232</u>	<u>5,656</u>
Drilling and rental gross margin excluding depreciation and amortization	<u>\$ 33,035</u>	<u>\$ 10,579</u>	<u>\$ 18,909</u>
<b>Three Months Ended June 30, 2006</b>			
Drilling and rental operating income (2)	\$ 17,341	\$ 7,827	\$ 14,468
Depreciation and amortization	<u>5,542</u>	<u>7,291</u>	<u>4,882</u>
Drilling and rental gross margin excluding depreciation and amortization	<u>\$ 22,883</u>	<u>\$ 15,118</u>	<u>\$ 19,350</u>

(2) Drilling and rental operating income — drilling and rental revenues less direct drilling and rental operating expenses, including depreciation and amortization expense.

**U.S. Drilling Segment**

Revenues for the U.S. drilling segment increased \$15.0 million to \$57.7 million for the quarter ended June 30, 2007 as compared to the quarter ended June 30, 2006. The increased revenues were primarily due to a \$10.5 million increase for our barge drilling operations from significantly higher dayrates that more than offset fewer operating days, primarily related to the sale of workover barge Rigs 9 and 26 (see Note 5) and the continued refurbishment of Barge Rig 8 during the second quarter of 2007. Barge Rig 12 was undergoing an upgrade from workover to deep drilling status until late May 2006 and newly constructed Barge Rig 77 also began operations in December 2006. During the last half of 2006 we also had two repositioned international land rigs operating in the U.S. market one of which contributed \$3.3 million to the increase in U.S. drilling segment revenues, while the other rig ceased operations at the end of the first quarter and began drilling mid-June in Mexico.

Average dayrates for the deep drilling barge rigs increased approximately \$11,200 per day in 2007 as compared to 2006. As a result of approximately 33 percent higher dayrates on all barge rigs and the one operating land rig, and effective operating cost controls, gross margins, excluding depreciation and amortization, increased \$10.2 million to \$33.0 million. This increase includes \$0.3 million for the land rig referred to above as well as an additional \$0.7 million related to the BP Liberty engineering and procurement project.

**International Drilling Segment**

International drilling revenues decreased \$11.8 million to \$61.2 million during the second quarter of 2007 as compared to the second quarter of 2006. Of this decrease, \$6.8 million is related to international land drilling revenues and \$5.0 million to revenues from offshore operations. The decline in land revenues relates primarily to completion of contracts in 2006, including seven land rigs working in Mexico, three rigs working under our TCO contract in Kazakhstan and three rigs in Turkmenistan. The decline of \$5.0 million in offshore operations is due primarily to the sale of our barge rigs in Nigeria in August 2006, partially offset by a \$1.3 million improvement in Barge Rig 53 revenues in Mexico due primarily to a higher dayrate.

Overall, land revenues in the CIS decreased by \$7.4 million due to the TCO contract completion in 2006 (\$6.2 million), the release of our three rigs in Turkmenistan (\$3.4 million) during the third quarter of 2006 and a reduction in revenues related to our Sakhalin Island operations (\$4.9 million) primarily related to the completion of a water injection well project in July 2006. In the Karachaganak area of Kazakhstan, revenues increased by \$0.6 million as a result of the addition of Rigs 249 and 258 (from the TCO contract) which earned pre-mobilization standby dayrates of \$0.5 million during the current quarter. Revenues on our O&M contract on Sakhalin Island increased \$2.2 million in the second quarter of 2007 and Rig 236, which began drilling in Kazakhstan in late 2006, contributed \$4.3 million in revenues in the second quarter of 2007. In our Asia Pacific region, revenues decreased \$5.2 million due mainly to completion of our contract within Bangladesh for Rig 225 (\$3.3 million) and O&M contracts within Papua New Guinea (\$1.0 million) and lower utilization in New Zealand, with only one of three rigs working in the second quarter (\$0.9 million).

**RESULTS OF OPERATIONS (continued)**

**International Drilling Segment (continued)**

Gross margin, excluding depreciation and amortization, for international land operations decreased by \$5.4 million, due primarily to the completion of contract wells in Mexico and under our TCO contract, the release of rigs in Turkmenistan, the shifting of Rig 122 and 256 revenues to U.S. operations, all of which occurred in 2006. In addition, two rigs in New Zealand completed contracts, one in the fourth quarter of 2006 and one in the first quarter of 2007. In Colombia, gross margin, excluding depreciation and amortization, increased by \$4.1 million as two rigs drilled the entire quarter in 2007, compared to no rigs operating in Colombia in the second quarter of 2006. For Rig 236 in Kazakhstan, gross margin, excluding depreciation and amortization, increased \$1.1 million as the rig operated all of the second quarter of 2007, and did not enter the region until late 2006. Mexico's gross margin, excluding depreciation and amortization, increased \$3.9 million due to lower expenses in 2007 as 2006 included costs to close down operations and relocate the rigs out of the country.

International offshore revenues declined \$5.0 million to \$8.9 million during the second quarter of 2007 compared to the second quarter of 2006. This decrease was due primarily to the sale of our Nigerian barge rigs in the third quarter of 2006. Revenues for Barge Rig 53 in Mexico increased \$1.3 million due to a higher dayrate. Gross margins, excluding depreciation and amortization, for international offshore operations increased \$0.9 million as a result of the higher dayrate in Mexico combined with better cost control in the Caspian Sea, offset partially by the sale of the Nigerian barge rigs.

**Rental Tools Segment**

Rental tools revenues increased \$1.1 million to \$31.4 million during the second quarter of 2007 as compared to the second quarter of 2006. The increase was due primarily to an increase in rental revenues of \$2.8 million at our Texarkana operations, \$0.9 million from our New Iberia, Louisiana operations, \$0.7 million from our Wyoming operations, and \$1.0 million from our international operations, partially offset by declines of \$2.7 million and \$1.5 million at our Victoria and Odessa, Texas locations, respectively. Revenues increased primarily due to higher demand and higher rental tool sales.

Rental tools gross margins, excluding depreciation and amortization, decreased \$0.4 million to \$18.9 million for the current quarter as compared to the second quarter of 2006. Gross margin percentage, excluding depreciation and amortization, decreased to 60 percent in the current quarter as compared to 64 percent in the comparable period in 2006. The margin decline relates to higher tool sales in the first quarter of 2006. The expansion of Quail is well underway as equipment is being delivered to Quail's new facility in Texarkana, Texas, which opened in April 2007. The new facility provides increased coverage of the Barnett, Fayetteville and Woodford shale areas in East Texas, Arkansas and Oklahoma.

**Other Financial Data**

Gain on asset dispositions was \$0.3 million, a decrease of \$1.8 million as a result of minor asset sales in the second quarter of 2007 as compared to a gain of \$2.1 million in 2006. The Company's 2006 gain related primarily to the sale of the remaining salvageable assets in connection with the loss of Rig 255 in Bangladesh that occurred in 2005. Interest expense declined \$2.2 million in the second quarter of 2007 as compared to the second quarter of 2006 due to lower outstanding debt and capitalization of \$1.9 million in interest on rig construction projects in 2007 as compared to \$0.7 million of capitalized interest in the second quarter of 2006. Interest income decreased \$0.3 million due to higher investments in marketable securities in the second quarter of 2006 as compared to 2007. General and administration expense decreased \$1.4 million as compared to the second quarter of 2006 due to a revision of our allocation method to more fairly match overhead costs directly to our operations.

**RESULTS OF OPERATIONS (continued)**

**Other Financial Data (continued)**

In 2004, we entered into two variable-to-fixed interest rate swap agreements, one of which is still outstanding. The swap agreements do not qualify for hedge accounting and accordingly, we are reporting the mark-to-market change in the fair value of the interest rate derivatives currently in earnings. For the three months ended June 30, 2007 the fair value of the derivative positions remained relatively unchanged and for the three months ended June 30, 2006 we recognized a \$0.4 million increase in the fair value of the derivative positions. For additional information see Note 9 in the notes to the unaudited consolidated condensed financial statements. Subsequent to June 30, 2007, we terminated one swap scheduled to expire in September 2008 and received \$0.7 million on July 17, 2007.

Income tax expense was \$15.8 million for the second quarter of 2007 as compared to \$14.7 million for the second quarter of 2006. Income tax for 2007 includes \$4.0 million of interest and foreign currency exchange rate fluctuations related to our FIN 48 calculation.

**Six Months Ended June 30, 2007 Compared with Six Months Ended June 30, 2006**

We recorded net income of \$46.9 million for the six months ended June 30, 2007, as compared to net income of \$25.2 million for the six months ended June 30, 2006. Drilling and rental operating income was \$92.4 million for the six months ended June 30, 2007 as compared to \$80.7 million for the three months ended June 30, 2006. Gain on disposition of assets for the current period was \$16.7 million as compared to \$2.6 million in the comparable period in 2006.

The following is an analysis of our operating results for the comparable periods:

	Six Months Ended June 30,			
	2007		2006	
	(Dollars in Thousands)			
<b>Drilling and rental revenues:</b>				
U.S. drilling	\$ 119,275	40%	\$ 82,950	28%
International drilling	120,870	40%	152,802	52%
Rental tools	61,405	20%	57,570	20%
<b>Total drilling and rental revenues</b>	<b>\$301,550</b>	<b>100%</b>	<b>\$293,322</b>	<b>100%</b>
<b>Drilling and rental operating income:</b>				
U.S. drilling gross margin excluding depreciation and amortization (1)	\$ 67,898	57%	\$ 45,666	55%
International drilling gross margin excluding depreciation and amortization (1)	24,470	20%	33,576	22%
Rental tools gross margin excluding depreciation and amortization (1)	37,721	61%	36,131	63%
Depreciation and amortization	(37,701)		(34,672)	
<b>Total drilling and rental operating income (2)</b>	<b>92,388</b>		<b>80,701</b>	
General and administration expense	(12,134)		(15,269)	
Gain on disposition of assets, net	16,673		2,573	
<b>Total operating income</b>	<b>\$ 96,927</b>		<b>\$ 68,005</b>	

(1) Drilling and rental gross margins, excluding depreciation and amortization, are computed as drilling and rental revenues less direct drilling and rental operating expenses, excluding depreciation and amortization expense; drilling and rental gross margin percentages are computed as drilling and rental gross margin, excluding depreciation and amortization, as a percent of drilling and rental revenues. The gross margin amounts, excluding depreciation and amortization, and gross margin percentages should not be used as a substitute for those amounts reported under accounting principles generally accepted in the United States ("GAAP"). However, we monitor our business segments based on several criteria, including drilling and rental gross margin. Management believes that this information is useful to our investors because it more accurately reflects cash generated by segment. Such gross margin amounts are reconciled to our most comparable GAAP measure as follows:

[Table of Contents](#)**RESULTS OF OPERATIONS (continued)**

	<u>U.S. Drilling</u>	<u>International Drilling</u>	<u>Rental Tools</u>
		(Dollars in Thousands)	
<b>Six Months Ended June 30, 2007</b>			
Drilling and rental operating income (2)	\$ 52,755	\$ 12,607	\$ 27,026
Depreciation and amortization	15,143	11,863	10,695
Drilling and rental gross margin excluding depreciation and amortization	<u>\$ 67,898</u>	<u>\$ 24,470</u>	<u>\$ 37,721</u>
<b>Six Months Ended June 30, 2006</b>			
Drilling and rental operating income (2)	\$ 35,067	\$ 18,980	\$ 26,654
Depreciation and amortization	10,599	14,596	9,477
Drilling and rental gross margin excluding depreciation and amortization	<u>\$ 45,666</u>	<u>\$ 33,576</u>	<u>\$ 36,131</u>

(2) Drilling and rental operating income — drilling and rental revenues less direct drilling and rental operating expenses, including depreciation and amortization expense.

**U.S. Drilling Segment**

Revenues for the U.S. drilling segment increased \$36.3 million to \$119.3 million for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006. The increased revenues were primarily due to a \$24.7 million increase for our barge drilling operations from significantly higher dayrates that more than offset fewer operating days, primarily related to the sale of workover Barge Rigs 9 and 26 (see Note 5) and the refurbishment of Barge Rig 8 during the second quarter of 2007. Barge Rig 12 was undergoing an upgrade from workover to deep drilling status until late May 2006 and newly constructed Barge Rig 77 also began operations in December 2006. During the last half of 2006 we also had two repositioned international land rigs operating in the U.S. market which contributed \$9.8 million to the increase in U.S. drilling segment revenues as well as an additional \$1.8 million related to the BP Liberty engineering and procurement project.

Average dayrates for the deep drilling barge rigs increased approximately \$12,500 per day in 2007 as compared to 2006. As a result of approximately 48 percent higher dayrates on all barge rigs, the addition of two land rigs and effective operating cost controls, gross margins, excluding depreciation and amortization, increased \$22.2 million to \$67.9 million. This increase includes \$2.1 million for the two land rigs and \$1.3 million for the engineering project referred to above.

**International Drilling Segment**

International drilling revenues decreased \$31.9 million to \$120.9 million during the first six months of 2007 as compared to the first six months of 2006. Of this decrease, \$21.0 million is related to international land drilling revenues and \$10.9 million to revenues from offshore operations. The decline in land revenues relates primarily to completion of our contracts for rigs working in Mexico, the release of rigs previously working under our TCO contract in Kazakhstan and the completion of our contract wells in Turkmenistan. The decline of \$10.9 million in offshore operations is due primarily to the sale of our barge rigs in Nigeria.

Overall, land revenues in the CIS decreased by \$20.5 million due to the TCO contract completion in 2006 (\$19.4 million), the release of our three rigs in Turkmenistan (\$8.3 million) during the third quarter of 2006 and a reduction in revenues related to our Sakhalin Island operations (\$5.9 million) primarily related to lower reimbursable revenues and the completion of a water reinjection well project in July 2006. In the Karachaganak area of Kazakhstan, revenues increased by \$3.8 million as a result of higher dayrates and the addition of Rig 107 (which was released in late December 2005 from the TCO contract) which commenced operations at the end of March 2006 and the addition of Rigs 249 and 258 (from the TCO contract) which earned pre-mobilization standby dayrates of \$2.7 million during the current period. In addition Rig 236, which began drilling in Kazakhstan in late 2006, contributed \$8.3 million in revenues. In our Asia Pacific region, revenues decreased \$3.3 million due mainly to terminations of contracts within Bangladesh for Rig 225 (\$2.0 million) and an additional 211 stacked days for two of our rigs within New Zealand (\$1.0 million).

**RESULTS OF OPERATIONS (continued)**

**International Drilling Segment (continued)**

Gross margin, excluding depreciation and amortization, for international land operations decreased by \$11.2 million, due primarily to the completion of contract wells under our TCO contract, the release of rigs in Turkmenistan, and shifting of Rig 122 and 256 to U.S. operations. In Mexico gross margin, excluding depreciation and amortization, improved by \$4.1 million due to lower expenses in 2007, as 2006 included costs to close down operations and relocate the rigs out of the country. In Colombia, gross margin, excluding depreciation and amortization, increased by \$7.9 million as two rigs drilled the entire period in 2007, compared to no rigs operating in Colombia in the comparable period of 2006. In the Karachaganak area of Kazakhstan, gross margin, excluding depreciation and amortization, increased \$2.5 million as two rigs operated all of the period of 2007, compared to one rig in the comparable period of 2006 and also as a result of pre-mobilization standby revenues on another two rigs received in the first six months of 2007. Rig 236, also in Kazakhstan contributed an increase of \$2.4 million for the period of 2007, as this rig was not working in the region in the comparable period in 2006.

International offshore revenues declined \$10.9 million to \$16.7 million during the first six months of 2007 compared to the first six months of 2006. This decrease was due primarily to the sale of our Nigerian barge rigs in the third quarter of 2006. Revenues for Barge Rig 53 in Mexico increased \$1.9 million due to a higher dayrate. Gross margins, excluding depreciation and amortization, for international offshore operations increased \$2.1 million as a result of the higher dayrate in Mexico combined with better cost controls in the Caspian Sea, partially offset by the sale of the Nigeria barge rigs.

**Rental Tools Segment**

Rental tools revenues increased \$3.8 million to \$61.4 million during the first six months of 2007 as compared to the first six months of 2006. The increase was due primarily to an increase in rental revenues of \$1.1 million from our international operations, \$2.6 million from our Wyoming operations, \$0.5 million at our New Iberia, Louisiana location, partially offset by a decline of \$0.3 million from our Texas operations.

Revenues increased primarily due to higher demand and higher rental tool sales. Rental tools gross margins, excluding depreciation and amortization, increased \$1.6 million to \$37.7 million for the current period as compared to the comparable period of 2006. Gross margin percentage, excluding depreciation and amortization, decreased to 61 percent in the current period as compared to 63 percent in the comparable period in 2006, due primarily to fewer equipment sales.

**Other Financial Data**

Gain on asset dispositions increased by \$14.1 million, due to the gain on the sale of the two workover barge rigs in the first quarter of 2007. Interest expense declined \$5.0 million in the second quarter of 2007 as compared to the second quarter of 2006 due to lower outstanding debt and capitalization of \$3.4 million in interest on rig construction projects in 2007. There was \$0.7 million capitalized interest in the first six months of 2006. Interest income for the current period was relatively unchanged when compared to the same period for 2006. General and administration expense decreased \$3.2 million as compared to first six months of 2006 due to a revision of our allocation method to more fairly match overhead costs directly to our operations..

In 2004, we entered into two variable-to-fixed interest rate swap agreements. The swap agreements do not qualify for hedge accounting and accordingly, we are reporting the mark-to-market change in the fair value of the interest rate derivatives currently in earnings. For the six months ended June 30, 2007, we recognized a \$.0.4 million decrease in the fair value of the derivative positions and for the six months ended June 30, 2006 we recognized a \$1.2 million increase in the fair value of the derivative positions. For additional information see Note 8 in the notes to the unaudited consolidated condensed financial statements. Subsequent to June 30, 2007, we terminated one swap scheduled to expire in September 2008 and received \$0.7 million on July 17, 2007.

**RESULTS OF OPERATIONS (continued)**

**Other Financial Data (continued)**

Income tax expense was \$39.9 million for the first six months of 2007 as compared to \$29.2 million for the second quarter of 2006. The \$10.7 million increase in taxes during the current period was due primarily to the impact of the gain on the sale of the two U.S. workover barge rigs, the inclusion of FIN 48 interest and foreign currency exchange rate fluctuation described in Note 6 and the increase in operating income related to U.S. operations.

**LIQUIDITY AND CAPITAL RESOURCES**

**Cash Flows**

As of June 30, 2007, we had cash, cash equivalents and marketable securities of \$102.3 million, a decrease of \$52.8 million from December 31, 2006. The primary sources of cash for the six-month period as reflected on the consolidated condensed statements of cash flows were \$37.2 million provided by operating activities and \$15.8 million from stock options exercised. The primary use of cash was \$83.9 million used in investing activities, including proceeds of \$20.5 million from the sale of two workover barge rigs, and \$129.6 million for capital expenditures. Major capital expenditures for the period included \$35.4 million on construction of new land rigs and \$41.9 million for tubulars and other rental tools for Quail Tools.

As of June 30, 2006, we had cash and cash equivalents of \$162.7 million, an increase of \$102.5 million from December 31, 2005. The primary sources of cash for the six-month period as reflected on the consolidated condensed statements of cash flows were \$79.0 million provided by operating activities, \$126.6 million from the sale of auction rate securities and \$108.7 million from financing activities, \$99.9 million of which was net proceeds on our common stock issuance in January 2006 as detailed in a subsequent paragraph. The primary uses of cash for the six-month period ended June 30, 2006 were \$80.2 million for capital expenditures and \$136.1 million for purchases of auction rate securities. Major capital expenditures for the period included \$13.1 million on construction of four new 2,000 HP land rigs, \$24.7 million for tubulars and other rental tools for Quail Tools, \$6.5 million on the conversion of workover Barge Rig 12 to a deep drilling barge and \$12.5 million on construction of a new ultra-deep drilling barge.

**Financing Activity**

On January 18, 2006 we issued 8,900,000 shares of our common stock pursuant to a Free Writing Prospectus dated January 17, 2006 and a Prospectus Supplement dated January 18, 2006. On January 23, 2006, we realized \$11.23 per share or a total of \$99.9 million of net proceeds before expenses, but after underwriter discount, from the offering. Proceeds from this offering are being used for capital expansions, including rig upgrades, new rig construction and expansion of our rental tools business.

Our current \$40.0 million credit facility is available for general corporate purposes and to fund reimbursement obligations under letters of credit the banks issue on our behalf pursuant to this facility. Availability under the revolving credit facility is subject to a borrowing base limitation based on 85 percent of eligible receivables plus a value for eligible rental tools equipment. The credit facility calls for a borrowing base calculation only when the credit facility has outstanding loans, including letters of credit, totaling at least \$25.0 million. As of June 30, 2007, there were \$17.6 million in letters of credit outstanding and no loans.



**LIQUIDITY AND CAPITAL RESOURCES (continued)**

**Financing Activity (continued)**

We had total long-term debt of \$329.0 million as of June 30, 2007. The long-term debt included:

- \$100.0 million aggregate principal amount of Senior Floating Rate Notes bearing interest at a rate of LIBOR plus 4.75%, which are due September 1, 2010; and
- \$225.0 million aggregate principal amount of 9.625% Senior Notes, which are due October 1, 2013 plus an associated \$4.0 million in unamortized debt premium.

As of June 30, 2007, we had approximately \$124.7 million of liquidity. This liquidity was comprised of \$102.3 million of cash, cash equivalents and marketable securities on hand and \$22.4 million of availability under the revolving credit facility. We do not have any unconsolidated special-purpose entities, off-balance-sheet financing arrangements nor guarantees of third-party financial obligations. We have no energy or commodity contracts.

The following table summarizes our future contractual cash obligations as of June 30, 2007:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>Years 2 - 3</u>	<u>Years 4 - 5</u>	<u>More than 5 Years</u>
	(Dollars in Thousands)				
<b>Contractual cash obligations:</b>					
Long-term debt — principal (1)	\$325,000	\$ —	\$ —	\$100,000	\$225,000
Long-term debt — interest (1)	163,284	30,457	60,973	44,784	27,070
Operating leases (2)	9,640	4,627	3,805	1,208	—
Purchase commitments (3)	31,735	31,735	—	—	—
<b>Total contractual obligations</b>	<b><u>\$529,659</u></b>	<b><u>\$66,819</u></b>	<b><u>\$ 64,778</u></b>	<b><u>\$145,992</u></b>	<b><u>\$252,070</u></b>
<b>Commercial commitments:</b>					
Revolving credit facility (4)	\$ —	\$ —	\$ —	\$ —	\$ —
Standby letters of credit (4)	17,570	17,570	—	—	—
<b>Total commercial commitments (5)</b>	<b><u>\$ 17,570</u></b>	<b><u>\$17,570</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>

(1) Long-term debt includes the principal and interest cash obligations of the 9.625% Senior Notes. The remaining unamortized premium of \$4.0 million is not included in the contractual cash obligations schedule. A portion of the interest on the Senior Floating Rate Notes has been fixed through variable-to-fixed interest rate swap agreements. The issuer (Bank of America, N.A.) of each swap has the option to extend each swap for an additional two years at the termination of the initial swap period. For the purpose of this table, the highest interest rate currently hedged is used in calculating the interest on future floating rate periods.

(2) Operating leases consist of lease agreements in excess of one year for office space, equipment, vehicles and personal property.

(3) We have purchase commitments outstanding as of June 30, 2007, related to rig upgrade projects and new rig construction.

(4) We have a \$40.0 million revolving credit facility. As of June 30, 2007, no amounts have been drawn down, but \$17.6 million of availability has been used to support letters of credit that have been issued, resulting in an estimated \$22.4 million of availability. The revolving credit facility expires in December 2007.

Subsequent to June 30, 2007 and with consent from our credit facility participants, on July 5, 2007, we issued \$125.0 million aggregate principal amount of 2.125% Convertible Notes due July 15, 2012 pursuant to a prospectus dated June 28, 2007. Interest is payable semiannually on July 15<sup>th</sup> and January 15<sup>th</sup>. The initial conversion price is approximately \$13.85 per share and is subject to adjustment for the occurrence of certain events stated within the indenture. Proceeds from the transaction will be used to call our outstanding Floating Rate notes in September 2007, to pay the net cost of hedge and warrant transactions, and for general corporate purposes. Effectively, the hedge and warrant transactions increase the conversion price to approximately \$18.29 per share.

**OTHER MATTERS****Critical Accounting Policies**

**Accounting for Uncertainty in Income Taxes** — Our accounting policy for income taxes was recently modified due to the adoption of FIN 48 on January 1, 2007. In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). The preparation of financial statements in accordance with FIN 48 requires management to make estimates and assumptions that affect amounts of liabilities reported and related disclosures due to the uncertainty as to the final resolution of certain tax matters. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in Note 6 of this quarterly report on 2007 Form 10-Q. The application of the prescribed factors in evaluating and estimating our tax positions and tax benefits may result in recognition of liabilities due to uncertainties of certain tax positions. Because the recognition of liabilities may require periodic adjustments and may not necessarily imply any change in management’s assessment of the ultimate outcome of such tax matters, the amount recorded as a liability for unrecognized tax benefits may not accurately anticipate actual outcomes. Other than the adoption of FIN 48, our critical accounting policies and the methodologies and assumptions we apply under them have not materially changed since the date of our 2006 Form 10-K.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We use derivative instruments to manage risks associated with interest rate fluctuations in connection with our \$100.0 million Senior Floating Rate Notes. These derivative instruments, which consist of two variable-to-fixed interest rate swaps, do not meet the hedge criteria in SFAS No. 133 and are therefore not designated as hedges. Accordingly, the change in the fair value of the interest rate swaps is recognized currently in earnings.

As of June 30, 2007, we had the following derivative instruments outstanding related to our interest rate swaps, which are included in “Other noncurrent assets” and “Other current assets:”

<u>Effective Date</u>	<u>Termination Date</u>	<u>Notional Amount</u> (Dollars in Thousands)	<u>Floating Rate</u>	<u>Fixed Rate</u>	<u>Fair Value</u>
September 1, 2005	September 2, 2008	\$ 50,000	Three-month LIBOR plus 475 basis points	8.83%	\$ 699
September 1, 2005	September 4, 2007	\$ 50,000	Three-month LIBOR plus 475 basis points	8.48%	213
					<u>\$ 912</u>

Subsequent to June 30, 2007, we terminated one swap scheduled to expire in September 2008 and received \$0.7 million on July 17, 2007.

## [Table of Contents](#)

### ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures** — We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. We performed evaluations under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2007. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at June 30, 2007.

**Changes in Internal Control Over Financial Reporting** — There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2007 covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 9, “Contingencies,” in Item 1 of this quarterly report on Form 10-Q, which information is incorporated herein by reference into this item.

#### ITEM 1A. RISK FACTORS

There have been no material changes in risk factors involving the Company or its subsidiaries from those previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

#### ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Date	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
March 31, 2007	3,306	\$ 9.79	—	—
April 6, 2007	181,530	\$ 9.85	—	—
May 6, 2007	59,328	\$ 11.35	—	—

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## Table of Contents

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

(a) Exhibits: The following exhibits are filed as a part of this report:

<u>Exhibit Number</u>	<u>Description</u>
4.1	Indenture, dated as of July 5, 2007, among Parker Drilling Company, the guarantors from time to time party thereto, and The Bank of New York Trust Company, N.A., with respect to the 2.125% Convertible Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 5, 2007).
4.2	Form of 2.125% Convertible Senior Note due 2013 (included in Exhibit 4.1).
10.1	Confirmation of Convertible Bond Hedge Transaction, dated as of June 28, 2007, by and between Parker Drilling Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.2	Confirmation of Convertible Bond Hedge Transaction, dated as of June 28, 2007, by and between Parker Drilling Company and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.3	Confirmation of Convertible Bond Hedge Transaction, dated as of June 28, 2007, by and between Parker Drilling Company and Lehman Brothers OTC Derivatives Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.4	Confirmation of Issuer Warrant Transaction dated as of June 28, 2007, by and between Parker Drilling Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.5	Confirmation of Issuer Warrant Transaction, dated as of June 28, 2007, by and between Parker Drilling Company and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.6	Confirmation of Issuer Warrant Transaction dated as of June 28, 2007, by and between Parker Drilling Company and Lehman Brothers OTC Derivatives Inc. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.7	Amendment to Confirmation of Issuer Warrant Transaction dated as of June 29, 2007, by and between Parker Drilling Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.8	Amendment to Confirmation of Issuer Warrant Transaction, dated as of June 29, 2007, by and between Parker Drilling Company and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on July 5, 2007).
10.9	Amendment to Confirmation of Issuer Warrant Transaction, dated as of June 29, 2007, by and between Parker Drilling Company and Lehman Brothers OTC Derivatives Inc. (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on July 5, 2007).
31.1	Section 302 Certification – Chairman and Chief Executive Officer
31.2	Section 302 Certification – Senior Vice President and Chief Financial Officer
32.1	Section 906 Certification – Chairman and Chief Executive Officer
32.2	Section 906 Certification – Senior Vice President and Chief Financial Officer

---

**SIGNATURES**

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

**PARKER DRILLING COMPANY**

Date: August 9, 2007

Registrant

By: /s/ Robert L. Parker Jr.  
Robert L. Parker Jr.  
Chairman and Chief Executive Officer

By: /s/ W. Kirk Brassfield  
W. Kirk Brassfield  
Senior Vice President and Chief Financial Officer

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Section 302 Certification – Chairman and Chief Executive Officer
31.2	Section 302 Certification – Senior Vice President and Chief Financial Officer
32.1	Section 906 Certification – Chairman and Chief Executive Officer
32.2	Section 906 Certification – Senior Vice President and Chief Financial Officer

**PARKER DRILLING COMPANY**  
**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Robert L. Parker Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2007, of Parker Drilling Company (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2007

/s/ Robert L. Parker Jr.  
Robert L. Parker Jr.  
Chairman and Chief Executive Officer

**PARKER DRILLING COMPANY**  
**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, W. Kirk Brassfield, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2007, of Parker Drilling Company (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2007

/s/ W. Kirk Brassfield

W. Kirk Brassfield

Senior Vice President and Chief Financial Officer



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Parker Drilling Company (the "Company") hereby certifies, to such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (the "Report") fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 9, 2007

/s/ Robert L. Parker Jr.

Robert L. Parker Jr.

Chairman and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Parker Drilling Company (the "Company") hereby certifies, to such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (the "Report") fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 9, 2007

/s/ W. Kirk Brassfield

W. Kirk Brassfield

Senior Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement.