

HERCULES OFFSHORE, INC.  
Form 10-Q  
July 23, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2015  
or  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission file number: 0-51582

HERCULES OFFSHORE, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

56-2542838  
(I.R.S. Employer Identification No.)

9 Greenway Plaza, Suite 2200  
Houston, Texas  
(Address of principal executive offices)  
(713) 350-5100  
(Registrant's telephone number, including area code)

77046  
(Zip Code)

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

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

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

Large accelerated filer x Accelerated filer Non-accelerated filer Smaller reporting company  
(Do not check if a smaller reporting company)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.01 per share

Outstanding as of July 20, 2015  
161,637,220

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ITEM 1. FINANCIAL STATEMENTSHERCULES OFFSHORE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$143,373	\$207,937
Accounts Receivable, Net	94,176	166,359
Prepays	21,528	19,585
Current Deferred Tax Asset	4,009	4,461
Other	3,427	5,955
	266,513	404,297
Property and Equipment, Net	1,555,954	1,574,749
Other Assets, Net	21,157	23,361
	\$1,843,624	\$2,002,407
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current Portion of Long-term Debt	\$1,211,044	\$—
Accounts Payable	45,283	52,952
Accrued Liabilities	53,987	66,090
Interest Payable	32,005	32,008
Other Current Liabilities	10,704	13,406
	1,353,023	164,456
Long-term Debt	—	1,210,919
Deferred Income Taxes	3,947	4,147
Other Liabilities	14,752	7,854
Commitments and Contingencies		
Stockholders' Equity:		
Common Stock, \$0.01 Par Value; 300,000 Shares Authorized; 164,618 and 163,540 Shares Issued, Respectively; 161,636 and 160,818 Shares Outstanding, Respectively	1,646	1,635
Capital in Excess of Par Value	2,182,240	2,179,838
Treasury Stock, at Cost, 2,982 and 2,722 Shares, Respectively	(56,942	) (56,765 )
Retained Deficit	(1,655,042	) (1,509,677 )
	471,902	615,031
	\$1,843,624	\$2,002,407

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue	\$79,249	\$242,963	\$201,868	\$499,697
Costs and Expenses:				
Operating Expenses	76,991	126,725	176,590	267,477
Depreciation and Amortization	37,451	43,670	74,669	83,753
General and Administrative	24,990	22,519	40,750	40,746
	139,432	192,914	292,009	391,976
Operating Income (Loss)	(60,183 )	50,049	(90,141 )	107,721
Other Income (Expense):				
Interest Expense	(24,737 )	(26,069 )	(49,697 )	(48,970 )
Loss on Extinguishment of Debt	(1,884 )	(4,767 )	(1,884 )	(19,925 )
Other, Net	(200 )	214	220	364
Income (Loss) Before Income Taxes	(87,004 )	19,427	(141,502 )	39,190
Income Tax Provision	(1,246 )	(12,781 )	(3,863 )	(12,628 )
Net Income (Loss)	\$(88,250 )	\$6,646	\$(145,365 )	\$26,562
Net Income (Loss) Per Share:				
Basic	\$(0.55 )	\$0.04	\$(0.90 )	\$0.17
Diluted	\$(0.55 )	\$0.04	\$(0.90 )	\$0.16
Weighted Average Shares Outstanding:				
Basic	161,523	160,713	161,290	160,392
Diluted	161,523	161,795	161,290	161,839

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net Income (Loss)	\$(145,365	) \$26,562
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	74,669	83,753
Stock-Based Compensation Expense	2,412	4,771
Deferred Income Taxes	(396	) (5,213
Provision (Benefit) for Doubtful Accounts Receivable	(431	) 5,088
(Gain) Loss on Disposal of Assets, Net	3,083	(17,003
Other	2,105	4,220
(Increase) Decrease in Operating Assets -		
Accounts Receivable	72,614	16,776
Prepaid Expenses and Other	5,845	(26,588
Increase (Decrease) in Operating Liabilities -		
Accounts Payable	(16,218	) 7,566
Insurance Notes Payable	—	(9,568
Other Current Liabilities	(14,985	) (19,680
Other Liabilities	7,326	(5,714
Net Cash Provided by (Used in) Operating Activities	(9,341	) 64,970
Cash Flows from Investing Activities:		
Capital Expenditures	(65,927	) (100,448
Insurance Proceeds Received	3,543	9,067
Proceeds from Sale of Assets, Net	7,161	23,717
Net Cash Used in Investing Activities	(55,223	) (67,664
Cash Flows from Financing Activities:		
Long-term Debt Borrowings	—	300,000
Redemption of 7.125% Senior Secured Notes	—	(300,000
Payment of Debt Issuance Costs	—	(3,914
Other	—	107
Net Cash Used in Financing Activities	—	(3,807
Net Decrease in Cash and Cash Equivalents	(64,564	) (6,501
Cash and Cash Equivalents at Beginning of Period	207,937	198,406
Cash and Cash Equivalents at End of Period	\$143,373	\$191,905

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

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
UNAUDITED

1. General

Hercules Offshore, Inc., a Delaware corporation, and its majority owned subsidiaries (the “Company”) provide shallow-water drilling and marine services to the oil and natural gas exploration and production industry globally through its Domestic Offshore, International Offshore and International Liftboats segments (See Note 9). At June 30, 2015, the Company operated a fleet of 27 jackup rigs, including one rig under construction (See Note 10), and 24 liftboat vessels. The Company’s diverse fleet is capable of providing services such as oil and gas exploration and development drilling, well service, platform inspection, maintenance and decommissioning operations in several key shallow-water provinces around the world.

The consolidated financial statements of the Company are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair presentation. Certain information relating to the Company’s organization and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted in this Form 10-Q pursuant to Securities and Exchange Commission rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 and the notes thereto included in the Company’s Annual Report on Form 10-K. The results of operations for the six months ended June 30, 2015 are not necessarily indicative of the results expected for the full year.

Current Market Environment

Demand for the Company’s oilfield services is driven by its exploration and production customers’ capital spending, which can experience significant fluctuation depending on current commodity prices and their expectations of future price levels, among other factors. The recent decline in the price of crude oil has negatively impacted dayrates and demand for the Company’s services. In addition to the oil price decline, the consolidation of the domestic customer base has negatively impacted demand for jackup rigs in the U.S. Gulf of Mexico. Internationally, the new capacity growth expected over the next three years could put further pressure on the operating environment for the existing jackup rig fleet. Although activity levels for liftboats are not as closely correlated to commodity prices as the Company’s drilling segments, commodity prices are still a key driver of liftboat demand. Demand for liftboat services in West Africa has been weak, which the Company believes has been driven by budgetary constraints with major customers primarily in Nigeria.

The Company has taken numerous actions to mitigate the effects of the decline in activity levels, including but not limited to: (i) cold stacking nine rigs and warm stacking four rigs since the fourth quarter of 2014 to significantly reduce operating expenses, (ii) significantly reducing its capital expenditures planned for 2015 and (iii) significantly reducing its workforce, both onshore and offshore. The Company continues to monitor its operating environment and will respond to further activity level declines as appropriate.

Restructuring Support Agreement

On June 17, 2015, Hercules Offshore, Inc. and certain of its U.S. domestic direct and indirect subsidiaries (together with Hercules Offshore, Inc., the “Debtors”) entered into an agreement (the “Restructuring Support Agreement” or “RSA”) with certain holders (the “Steering Group Members”) collectively owning or controlling in excess of 66 2/3% of the aggregate outstanding principal amount of the Company’s 10.25% senior notes due 2019, 8.75% senior notes due 2021, 7.5% senior notes due 2021 and 6.75% senior notes due 2022 (the “Outstanding Notes”).

The RSA sets forth, subject to certain conditions, the commitment to and obligations of, on the one hand, the Debtors, and on the other hand, the Steering Group Members (and any successors or permitted assigns that become party thereto) in connection with a restructuring of the Outstanding Notes, the Company’s 3.375% convertible senior notes due 2038 (the “Convertible Notes”), the Company’s 7.375% senior notes due 2018 (the “Legacy Notes”) and the Company’s common stock, par value \$0.01 per share (the “Existing Common Stock”) (the “Restructuring Transaction”) pursuant to a pre-packaged or pre-negotiated plan of reorganization (the “Plan”) to be filed under Chapter 11 (“Chapter 11”) of the United States Bankruptcy Code. The Plan will be based on the restructuring term sheet included in the RSA (the “Term Sheet”).

Under the proposed Plan, which requires Bankruptcy Court approval, the Company's trade creditors and vendors are expected to be paid in full in the ordinary course of business, and all of the Company's contracts are expected to remain in effect in accordance with their terms preserving the rights of all parties.

Pursuant to the terms of the RSA, the Steering Group Members agreed, among other things, and subject to certain conditions: (a) not to support any restructuring, reorganization, plan or sale process that is inconsistent with the RSA, (b) not to instruct an agent or indenture trustee for any of the Outstanding Notes to take any action that is inconsistent with the terms and conditions of the RSA, including, without limitation, the declaration of an event of default, or acceleration of the Outstanding Notes arising from, relating to, or in connection with the execution of the RSA; and at the request of the Company, to waive or



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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

UNAUDITED

agree to forbear from exercising any right to take action in respect of any default or acceleration that may occur automatically without action of any as a result of the operation of the indentures governing the Outstanding Notes, and (c) to vote to accept the Plan.

The Company has agreed, among other things, and subject to certain conditions: (a) to use reasonable best efforts to obtain approval by the Bankruptcy Court of the documents required in connection with the Plan; (b) to take no action that is materially inconsistent with the RSA, the Term Sheet or the Plan; and (c) not to support any alternative plan or transaction other than the Plan.

The Term Sheet contemplates that the Debtors will reorganize as a going concern and continue their day-to-day operations substantially as currently conducted. Specifically, the material terms of the Plan are expected to effect, among other things, subject to certain conditions and as more particularly set forth in the Term Sheet, upon the effective date of the Plan, a substantial reduction in the Debtors' funded debt obligations (including \$1.2 billion of face amount of the Outstanding Notes). Certain principal terms of the Term Sheet are outlined below.

- New capital raise of first lien debt with a maturity of 4.5 years and bearing interest at LIBOR plus 9.5% per annum (1.0% LIBOR Floor), payable in cash, issued at a price equal to 97% of the principal amount. The first lien debt would consist of \$450 million for general corporate use and to finance the remaining construction cost of the Company's newbuild rig, the Hercules Highlander, and would be guaranteed by substantially all of the Company's U.S. domestic and international subsidiaries and secured by liens on substantially all of the Company's domestic and foreign assets. The first lien debt would include financial covenants and other terms and conditions.

- Exchange of the Outstanding Notes, Legacy Notes and Convertible Notes for 96.9% of the Company's common stock issued in the reorganization ("New Common Stock").

If the Plan is consummated as contemplated by the Term Sheet, holders of the Company's Existing Common Stock will hold 3.1% of the New Common Stock and will receive warrants to purchase New Common Stock on a pro rata basis (the "Warrants"). The Warrants are exercisable at any time until their expiration date for a per share price based upon a \$1.55 billion total enterprise value. The expiration date for the Warrants will be six years from the effective date of the reorganization, subject to the earlier expiration upon the occurrence of certain extraordinary events. If the terms for exercise of the Warrants are not met before the applicable expiration date, then holders of the Company's Existing Common Stock shall receive only 3.1% of the New Common Stock and shall not realize any value under the terms of the Warrants.

The RSA may be terminated upon the occurrence of certain events, including the failure to meet specified milestones related to filing, confirmation and consummation of the Plan, among other requirements, and in the event of certain breaches by the parties under the RSA. There can be no assurance that a Restructuring Transaction will be consummated.

#### Launch of Solicitation of Votes for Prepackaged Reorganization Plan

On July 13, 2015, the Company commenced a solicitation of votes for a prepackaged plan of reorganization from holders of its Outstanding Notes, Convertible Notes and Legacy Notes. The solicitation is scheduled to end on August 12, 2015.

#### Termination of Credit Agreement

The entry into the RSA or the matters contemplated thereby may be deemed to have constituted an event of default with respect to the Credit Facility and the Outstanding Notes. In connection with the RSA, the Company terminated its Credit Facility effective June 22, 2015. There were no amounts outstanding and no letters of credit issued under the Credit Facility at that time. The obligations under the Credit Facility were jointly and severally guaranteed by substantially all of the Company's domestic subsidiaries. Liens on the Company's vessels that secured the Credit Facility have been released. The Company maintained compliance with all covenants under the Credit Facility through the termination date and has paid all fees in full (See Note 5).

#### Recent Dayrate Reductions

On February 25, 2015, the Company received a notice from Saudi Aramco terminating for convenience its drilling contract for the Hercules 261, effective on or about March 27, 2015. The Company received subsequent notices from Saudi Aramco extending the effective date of termination to May 31, 2015. On June 1, 2015, the Company received notice from Saudi Aramco reinstating the drilling contract on the Hercules 261, in exchange for dayrate concessions on the Hercules 261, Hercules 262 and Hercules 266 from their existing contracted rates to \$67,000 per day. These reduced dayrates are effective retroactively from January 1, 2015 through December 31, 2016 for the Hercules 261 and Hercules 262, and through the remaining contract term for the Hercules 266. As the dayrate concessions are effective retroactive to January 1, 2015, the

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## HERCULES OFFSHORE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## UNAUDITED

Company has made an adjustment to revenue for amounts earned under these contracts during the period from January 1, 2015 through March 31, 2015. This adjustment of \$13.4 million was recorded in the second quarter of 2015.

**Other Events**

In anticipation of the Chapter 11 filing, the Debtors opted to conserve cash and not to make certain interest payments due on July 15, 2015 on the Company's 8.75% Senior Notes. The aggregate amount of those interest payments was \$17.5 million. If the Debtors have not filed for Chapter 11 and interest is not paid within 30 days of the due date, it would be considered an event of default under the 8.75% Senior Notes which would trigger cross default provisions in each of the Company's other Outstanding Notes.

**2. Supplemental Financial Information****Consolidated Balance Sheet Information**

Other current liabilities consisted of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
<b>Other Current Liabilities:</b>		
Deferred Revenue - Current Portion	\$5,388	\$9,439
Other	5,316	3,967
	\$10,704	\$13,406

**3. Earnings Per Share**

The reconciliation of the numerators and denominators used for the computation of basic and diluted earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
<b>Numerator:</b>				
Net income (loss)	\$(88,250 )	\$6,646	\$(145,365 )	\$26,562
<b>Denominator:</b>				
Weighted average basic shares	161,523	160,713	161,290	160,392
Add effect of stock equivalents	—	1,082	—	1,447
Weighted average diluted shares	161,523	161,795	161,290	161,839

The Company calculates basic earnings per share by dividing net income (loss) by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period as adjusted for the dilutive effect of the Company's stock options, time-based restricted stock and performance-based restricted stock awards. The effect of stock option and restricted stock awards is not included in the computation for periods in which a net loss occurs, because to do so would be anti-dilutive. The Company's diluted earnings per share calculation for the three and six months ended June 30, 2015 excludes 6.3 million and 6.2 million stock equivalents, respectively, that would have potentially been included if the Company had generated net income but are excluded as the Company generated a net loss. The Company's diluted earnings per share calculation excludes 1.5 million and 1.3 million stock equivalents for the three and six months ended June 30, 2014, respectively, due to their anti-dilutive effect.



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## HERCULES OFFSHORE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## UNAUDITED

## 4. Dispositions

From time to time the Company enters into agreements to sell assets. The following table provides information related to the sale of several of the Company's assets, excluding other miscellaneous asset sales that occur in the normal course of business, during the six months ended June 30, 2015 and 2014.

Asset	Segment	Period of Sale	Proceeds (in thousands)	Gain/(Loss) (a)
2015:				
Hercules 85	Domestic Offshore	May 2015	\$250	\$(2,606)
Hercules 153	Domestic Offshore	May 2015	250	(1,039)
Hercules 203	Domestic Offshore	May 2015	250	(1,050)
Hercules 206	Domestic Offshore	May 2015	250	(1,039)
Hercules 207	Domestic Offshore	June 2015	1,750	(43)
Hercules 211	Domestic Offshore	June 2015	1,750	292
			\$4,500	\$(5,485)
2014:				
Hercules 258	International Offshore	April 2014	\$12,000	\$10,526
Hercules 2002	Domestic Offshore	April 2014	1,750	470
Hercules 250	Domestic Offshore	June 2014	8,450	6,883
			\$22,200	\$17,879

(a) These gains (losses) are included in Operating Expenses on the Consolidated Statements of Operations for the three and six months ended June 30th of the respective year.

## 5. Debt

## Balance Sheet Classification

While the Company's debt has not been called or accelerated, its entry into the RSA (See Note 1) or the matters contemplated thereby may be deemed to have constituted an event of default with respect to the Outstanding Notes. In addition, if the RSA obligations were not completed and the Chapter 11 cases were not filed or approved and interest on the 8.75% Senior Notes has not been cured within the 30 day grace period, the Company's debt could be called and accelerated as the non-payment of interest would be considered an event of default under the 8.75% Senior Notes which would trigger cross default provisions in each of the Company's other debt obligations. Therefore, the Company's debt was classified as current and is included in Current Portion of Long-Term Debt in the Consolidated Balance Sheet as of June 30, 2015.

## Senior Secured Credit Agreement

On April 3, 2012, the Company entered into a credit agreement which as amended on July 8, 2013 (the "Credit Agreement") governed its senior secured revolving credit facility (the "Credit Facility"). The Credit Agreement provided for a \$150.0 million senior secured revolving credit facility.

In connection with the RSA, the Company terminated the Credit Facility effective June 22, 2015. There were no amounts outstanding and no letters of credit issued under the Credit Facility at that time. Liens on the Company's vessels that secured the Credit Facility have been released. The Company maintained compliance with all covenants under the Credit Facility through the termination date and has paid all fees in full. In connection with the termination of the Credit Facility, the Company incurred a pretax charge of \$1.9 million related to the write-off of unamortized debt issuance costs and professional fees associated with the termination.

## Retirement of 7.125% Senior Secured Notes

In 2012, the Company issued \$300.0 million of senior secured notes at a coupon rate of 7.125% ("7.125% Senior Secured Notes") with maturity in April 2017. On March 12, 2014 the Company commenced a cash tender offer (the "Tender offer") for

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

UNAUDITED

any and all of the \$300.0 million outstanding aggregate principal amount of its 7.125% Senior Secured Notes. Senior secured notes totaling approximately \$220.1 million were settled on March 26, 2014 for \$232.7 million using a portion of the proceeds from the \$300.0 million 6.75% Senior Notes due April 2022 ("6.75% Senior Notes") issued on March 26, 2014. Additionally, on April 29, 2014, the Company redeemed all \$79.9 million of the remaining outstanding 7.125% Senior Secured Notes for approximately \$84.2 million using the remaining net proceeds from the 6.75% Senior Notes offering, together with cash on hand.

Loss on Extinguishment of Debt

During the six months ended June 30, 2014 and 2015, the Company incurred the following charges which are included in Loss on Extinguishment of Debt in the Consolidated Statement of Operations for their respective periods: In March 2014, the Company incurred a pretax charge of \$15.2 million, consisting of a \$12.6 million call premium and \$1.4 million of unamortized debt issuance costs related to the redemption of the 7.125% Senior Secured Notes, as well as \$1.1 million of bank fees related to the issuance of the 6.75% Senior Notes;

In April 2014, the Company incurred a pretax charge of \$4.8 million consisting of a \$4.3 million call premium and \$0.5 million of unamortized debt issuance costs related to the redemption of the remaining 7.125% Senior Secured Notes; and

In June 2015, the Company incurred a pretax charge of \$1.9 million consisting of \$1.8 million of unamortized debt issuance costs and \$0.1 million of associated professional fees related to the termination of the Credit Facility.

6. Fair Value Measurements

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses the fair value hierarchy included in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820-10, Fair Value Measurements and Disclosure, which is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy consists of the following three levels:

Level 1 — Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 — Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and other current liabilities, approximate fair values because of the short-term nature of the instruments. The fair value of the Company's cash equivalents are Level 1.

The fair value of the Company's 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes, 10.25% Senior Notes and 3.375% Convertible Senior Notes is estimated based on quoted prices in active markets. The fair value of the Company's 7.375% Senior Notes is estimated based on discounted cash flows using inputs from quoted prices in active markets for similar debt instruments. The inputs used to determine fair value are considered Level 2 inputs.

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## HERCULES OFFSHORE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## UNAUDITED

The following table provides the carrying value and fair value of the Company's long-term debt instruments:

	June 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
8.75% Senior Notes, due July 2021	\$400.0	\$143.3	\$400.0	\$191.0
7.5% Senior Notes, due October 2021	300.0	103.5	300.0	135.8
6.75% Senior Notes, due April 2022	300.0	105.0	300.0	132.8
10.25% Senior Notes, due April 2019	200.0	70.1	200.0	111.4
3.375% Convertible Senior Notes, due June 2038	7.5	6.6	7.4	6.5
7.375% Senior Notes, due April 2018	3.5	1.2	3.5	1.9

## 7. Long-Term Incentive Awards

## Stock-based Compensation

The Company's 2014 Long-Term Incentive Plan (the "2014 Plan") provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, performance awards and other stock-based awards to selected employees and non-employee directors of the Company. At June 30, 2015, approximately 5.7 million shares were available for grant or award under the 2014 Plan. The Company's 2004 Amended and Restated Long-Term Incentive Plan (the "2004 Plan") remains in effect only as it relates to outstanding awards previously granted under that plan.

During the six months ended June 30, 2015, the Company granted the following equity awards:

**Time-based awards** — The Company granted 1.6 million time-based restricted stock awards to certain employees which vest 1/3 per year. The grant-date fair value per share for these time-based restricted stock awards is equal to the closing price of the Company's stock on the grant date, which was a weighted-average grant date fair value of \$0.55 for the awards granted in the six months ended June 30, 2015.

**Objective-based awards** — The Company granted additional compensation awards to certain employees that are based on the Company's achievement of certain Company-based performance objectives as well as the Company's achievement of certain market-based objectives. These awards cliff vest three years from the date of grant and are payable in cash, subject to vesting requirements, after the completion of all performance periods with 20% of the award being achievable based on a one-year performance period, 30% being achievable based on a two-year performance period, and the remaining 50% being achievable based upon a three-year performance period. The CEO's award also contains an equity component that is earned, in addition to the cash, up to a total amount of 400,000 shares if minimum levels of performance are achieved. The fair value of all awards requiring share settlement is measured at the fair value on the grant date, while those requiring cash settlement are remeasured at the end of each reporting period.

The Company accounts for awards, or the portion of the awards, requiring cash settlement under stock-compensation principles of accounting as liability instruments. The fair value of all liability instruments are being remeasured based on the awards' estimated fair value at the end of each reporting period and are being recorded to expense over the vesting period.

The awards that are based on the Company's achievement of market-based objectives related to the Company's stock price performance as compared to certain peer groups as defined in the award agreements are valued using a Monte Carlo simulation. The Company uses various assumptions to estimate the fair value of the Company's objective-based awards. The Company uses the historical volatility of its common stock as well as that of certain peer groups as defined in the award agreements to estimate volatility while the dividend yield assumptions are based on historical and anticipated dividend payouts of the Company as well as that of certain peer groups as defined in the award agreements. The risk-free interest rate assumptions are based on observed interest rates consistent with the



approximate vesting periods and the stock price used represents the closing price of the Company's common stock, as well as that of certain peer groups as defined in the award agreements, at the valuation date.

8. Income Taxes

The Company, directly or through its subsidiaries, files income tax returns in the United States, and multiple state and foreign jurisdictions. The Company's tax returns for 2008 through 2014 remain open for examination by the taxing authorities

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## HERCULES OFFSHORE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## UNAUDITED

in the respective jurisdictions where those returns were filed. Although the Company believes that its estimates are reasonable, the final outcome in the event that the Company is subjected to an audit could be different from that which is reflected in its historical income tax provision and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made. In addition, TODCO income tax obligations from periods prior to its initial public offering in 2004 are indemnified by Transocean, the former owner of TODCO, under the tax sharing agreement, except for the Trinidad and Tobago jurisdiction. The Company's Trinidadian and Tobago tax returns are open for examination for the years 2010 through 2014.

From time to time, the Company's tax returns are subject to review and examination by various tax authorities within the jurisdictions in which the Company operates or has operated. The Company is currently contesting tax assessments in Venezuela, and may contest future assessments where the Company believes the assessments are meritless.

In January 2014, the Federal Inland Revenue Service of Nigeria commenced an audit of calendar years 2007 through 2011, which was completed in the first quarter of 2015. In February 2015, the Company has been informed that 2012 and 2013 will be examined as well. While the Company cannot predict or provide assurance regarding the outcome of these proceedings, the Company does not expect the ultimate liability to have a material effect on its consolidated financial statements.

During the first quarter of 2015 and 2014, the Company recognized \$0.9 million and \$4.8 million, respectively, of tax benefit as a result of the tolling of a statute of limitations in foreign jurisdictions.

#### 9. Segments

The Company currently reports its business activities in three business segments: (1) Domestic Offshore, (2) International Offshore and (3) International Liftboats. The Company eliminates inter-segment revenue and expenses, if any.

The Company's jackup rigs are used primarily for exploration and development drilling in shallow waters. The Company's liftboats are self-propelled, self-elevating vessels with a large open deck space, which provides a versatile, mobile and stable platform to support a broad range of offshore maintenance and construction services throughout the life of an oil or natural gas well.

In November 2013, the Company entered into an agreement with Perisai Drilling Sdn Bhd ("Perisai") whereby the Company agreed to market, manage and operate two Pacific Class 400 design new-build jackup drilling rigs, Perisai Pacific 101 and Perisai Pacific 102 ("Perisai Agreement"). Pursuant to the terms of the agreement, the Company is reimbursed for all operating expenses and Perisai pays for all capital expenditures. The Company receives a daily management fee for the rig and a daily operational fee equal to 12% of the rig-based EBITDA, as defined in the Perisai Agreement. In August 2014, Perisai Pacific 101 commenced work on a three-year drilling contract in Malaysia. Perisai Pacific 102 was scheduled to be delivered by the shipyard by mid-2015. It is the Company's understanding that delivery has been delayed for an uncertain period of time.

Specific to the Perisai Agreement, the Company recognized the following results in its International Offshore segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Revenue	\$2.9	\$2.7	\$7.1	\$4.0
Operating Expenses	1.7	1.8	4.3	3.0

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## HERCULES OFFSHORE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## UNAUDITED

Information regarding the Company's reportable segments is as follows:

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Revenue	Income (Loss) from Operations	Depreciation and Amortization	Revenue	Income (Loss) from Operations	Depreciation and Amortization
	(in thousands)			(in thousands)		
Domestic Offshore	\$40,624	\$1,384	\$11,665	\$93,499	\$5,214	\$23,358
International Offshore	17,463	(40,476 )	20,959	69,111	(61,328 )	41,298
International Liftboats	21,162	817	4,166	39,258	466	8,598
	\$79,249	\$(38,275 )	\$36,790	\$201,868	\$(55,648 )	\$73,254
Corporate	—	(21,908 )	661	—	(34,493 )	1,415
Total Company	\$79,249	\$(60,183 )	\$37,451	\$201,868	\$(90,141 )	\$74,669
	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Revenue	Income (Loss) from Operations	Depreciation and Amortization	Revenue	Income (Loss) from Operations	Depreciation and Amortization
	(in thousands)			(in thousands)		
Domestic Offshore	\$140,383	\$57,283	\$17,978	\$283,648	\$108,829	\$35,349
International Offshore	71,725	6,725	19,075	152,663	21,367	35,701
International Liftboats	30,855	(713 )	5,616	63,386	4,851	10,742
	\$242,963	\$63,295	\$42,669	\$499,697	\$135,047	\$81,792
Corporate	—	(13,246 )	1,001	—	(27,326 )	1,961
Total Company	\$242,963	\$50,049	\$43,670	\$499,697	\$107,721	\$83,753
				Total Assets		
				June 30,	December 31,	
				2015	2014	
				(in thousands)		
Domestic Offshore				\$413,449	\$511,804	
International Offshore				1,207,413	1,228,247	
International Liftboats				191,846	227,776	
Corporate				30,916	34,580	
Total Company				\$1,843,624	\$2,002,407	

## 10. Commitments and Contingencies

## Rig Construction Contract

In May 2014, the Company signed a rig construction contract with Jurong Shipyard Pte Ltd ("JSL") in Singapore to build a High Specification, Harsh Environment rig, Hercules Highlander, which is expected to be delivered in April 2016. The shipyard cost of the rig is estimated at approximately \$236 million. Including project management, spares, commissioning and other costs, total delivery cost is estimated at approximately \$270 million of which approximately \$216 million remains to be spent at June 30, 2015. The total delivery cost estimate excludes any customer specific outfitting that is reimbursable to the Company, costs to mobilize the rig to the first well, as well as capitalized interest. The Company paid \$23.6 million, or 10% of the shipyard cost, to JSL in May 2014 and made a second 10% payment in May 2015 with the final 80% of the shipyard payment due upon delivery of the rig.



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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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Legal Proceedings

The Company expects to commence Chapter 11 cases to implement its restructuring pursuant to the Restructuring Support Agreement. While the filing of a bankruptcy petition automatically stays certain actions against the Company, including actions to collect pre-petition indebtedness or to exercise control over the property of its bankruptcy estates, the Company intends to seek authority to pay all general claims in the ordinary course of business notwithstanding the commencement of the Chapter 11 cases in a manner consistent with the Restructuring Support Agreement. The Plan in the Chapter 11 cases, if confirmed, will provide for the treatment of claims against the Company's bankruptcy estates, including pre-petition liabilities that have not otherwise been satisfied or addressed during the Chapter 11 cases.

The Company is involved in various claims and lawsuits in the normal course of business. As of June 30, 2015, management did not believe any accruals were necessary in accordance with FASB ASC 450-20, Contingencies — Loss Contingencies.

Say-on-Pay Litigation

In June 2011, two separate shareholder derivative actions were filed purportedly on the Company's behalf in response to its failure to receive a majority advisory "say-on-pay" vote in favor of the Company's 2010 executive compensation. On June 8, 2011, the first action was filed in the District Court of Harris County, Texas, and on June 23, 2011, the second action was filed in the United States Court for the District of Delaware. Subsequently, on July 21, 2011, the plaintiff in the Harris County action filed a concurrent action in the United States District Court for the Southern District of Texas. Each action named the Company as a nominal defendant and certain of its officers and directors, as well as the Company's Compensation Committee's consultant, as defendants. Plaintiffs allege that the Company's directors breached their fiduciary duty by approving excessive executive compensation for 2010, that the Compensation Committee consultant aided and abetted that breach of fiduciary duty, that the officer defendants were unjustly enriched by receiving the allegedly excessive compensation, and that the directors violated the federal securities laws by disseminating a materially false and misleading proxy. The plaintiffs seek damages in an unspecified amount on the Company's behalf from the officer and director defendants, certain corporate governance actions, and an award of their costs and attorney's fees. The Company and the other defendants have filed motions to dismiss these cases for failure to make demand upon the Company's board and for failing to state a claim. On June 11, 2012, the plaintiff in the Harris County action voluntarily dismissed his action. On March 14, 2013, the Company's and the other defendants' motions to dismiss the Delaware federal action were granted. The motions to dismiss the Texas federal action are pending.

The Company does not expect the ultimate outcome of the shareholder derivative lawsuit to have a material adverse effect on its consolidated results of operations, financial position or cash flows.

Hercules 265 Litigation

In January 2015, Cameron International Corporation ("Cameron"), and Axon Pressure Products, Inc. and Axon EP, Inc. (collectively "Axon") filed third-party complaints against the Company in a subrogation action that Walter Oil & Gas Corporation ("Walter") and its underwriters, together with Walter's working interest partners, Tana Exploration Company, LLC and Helis Oil & Gas Company, LLC, filed against Cameron and Axon, among others, to recover an undisclosed amount of damages relating to the well control incident at South Timbalier 220 involving the Hercules 265. Cameron and Axon also have filed answers and claims in a limitation of liability action that the Company filed relating to the incident. The Company has tendered defense and indemnity to Walter for the claims asserted by Cameron and Axon, pursuant to the terms of the drilling contract between the Company and Walter. The Company has also tendered defense and demanded indemnity to Axon for the claims asserted by Cameron against the Company, pursuant to a Master Services Agreement between Axon and the Company. Until such time as Walter and/or Axon accept the tender, the Company will vigorously defend the claims.

EPA Notice of Potential Violation of Resource Conservation and Recovery Act

In December 2014, the Company received a notice from the Environmental Protection Agency ("EPA") alleging potential violations of the Resource Conservation and Recovery Act related to hazardous waste generation requirements. The Company has executed a Consent Agreement and Final Order with the EPA and paid a penalty of approximately \$132,000 to resolve the matter.

The Company and its subsidiaries are involved in a number of other lawsuits, all of which have arisen in the ordinary course of business. The Company does not believe that the ultimate liability, if any, resulting from any such other pending litigation will have a material adverse effect on its business or consolidated financial statements.

The Company cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any other pending litigation. There can be no assurance that the Company's belief or expectations as to the outcome

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

UNAUDITED

or effect of any lawsuit or other litigation matter will prove correct, and the eventual outcome of these matters could materially differ from management's current estimates.

**Insurance and Indemnity**

The Company maintains insurance coverage that includes coverage for physical damage, third-party liability, workers' compensation and employer's liability, general liability, vessel pollution and other coverages. Effective May 1, 2015, the Company completed the annual renewal of all of its key insurance policies. The Company's insurance policies typically consist of twelve-month policy periods, and the next renewal date for its insurance program is scheduled for May 1, 2016.

The Company's drilling contracts provide for varying levels of indemnification from its customers, including for well control and subsurface risks, and in most cases, may require the Company to indemnify its customers for certain liabilities. Under the Company's drilling contracts, liability with respect to personnel and property is customarily assigned on a "knock-for-knock" basis, which means that the Company and its customers assume liability for their respective personnel and property, regardless of how the loss or damage to the personnel and property may be caused, and even if the Company is grossly negligent. However, some of the Company's customers have been reluctant to extend their indemnity obligations in instances where the Company is grossly negligent. The Company's customers typically assume responsibility for and agree to indemnify the Company from any loss or liability resulting from pollution or contamination, including clean-up and removal and third-party damages arising from operations under the contract and originating below the surface of the water, including as a result of blowouts or cratering of the well ("Blowout Liability"). The customer's assumption for Blowout Liability may, in certain circumstances, be contractually limited or could be determined to be unenforceable in the event of the Company's gross negligence, willful misconduct or other egregious conduct. In addition, the Company may not be indemnified for statutory penalties and punitive damages relating to such pollution or contamination events. The Company generally indemnifies the customer for the consequences of spills of industrial waste or other liquids originating solely above the surface of the water and emanating from its rigs or vessels.

Control-of-well events generally include an unintended flow from the well that cannot be contained by equipment on site (e.g., a blow-out preventer), by increasing the weight of the drilling fluid, or that does not naturally close itself off through what is typically described as "bridging over". The Company carries a contractor's extra expense policy with \$50.0 million primary liability coverage for well control costs, pollution and expenses incurred to redrill wild or lost wells, with excess liability coverage up to \$200.0 million for pollution liability that is covered in the primary policy. Additionally, the Company carries a contractor's expense policy for the Hercules Triumph and Hercules Resilience with \$50.0 million primary liability coverage for well control costs, pollution and expenses incurred to redrill wild or lost wells, with excess coverage up to \$25.0 million for pollution liability that is covered in the primary policy. The policies are subject to exclusions, limitations, deductibles, self-insured retention and other conditions, including the requirement for Company gross negligence or willful misconduct.

**Adequacy of Insurance Coverage**

The Company is responsible for the deductible portion of its insurance coverage. Management believes adequate accruals have been made on known and estimated exposures up to the deductible portion of the Company's insurance coverage. Management believes that claims and liabilities in excess of the amounts accrued are adequately insured. However, the Company's insurance is subject to exclusions and limitations, and there is no assurance that such coverage will adequately protect the Company against liability from all potential consequences. In addition, there is no assurance of renewal or the ability to obtain coverage acceptable to the Company.

**Hercules 265 Incident and Settlement of Property Damage Insurance Claim**

In July 2013, the Company's jackup drilling rig Hercules 265, a 250' mat-supported cantilevered unit operating in the U.S. Gulf of Mexico Outer Continental Shelf lease block South Timbalier 220, experienced a well control incident. The rig sustained substantial damage in the incident and the Company's insurance underwriters determined that the rig

was a constructive total loss. The cause of the incident is unknown but is under investigation. The Company has removal of wreck coverage for this incident up to a total amount of \$110.0 million. During the second quarter of 2014, the Company received gross proceeds of \$9.1 million from the insurance underwriters as reimbursement for a portion of the wreck removal and related costs incurred and, used \$2.0 million to repurchase the Hercules 265 hull from the insurance underwriters. During the six months ended June 30, 2015, the Company received an additional \$3.5 million in gross proceeds from the insurance underwriters as reimbursement for a portion of the wreck removal and related costs incurred to date. The Company and its insurance underwriters continue to negotiate the insurance recovery amounts for costs related to the salvage of the rig and certain other insured losses.



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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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Sales and Use Tax Audits

Certain of the Company's legal entities are under audit by various taxing authorities for several prior-year periods. These audits are ongoing and the Company is working to resolve all relevant issues. The Company has an accrual of \$5.9 million and \$6.3 million related to these sales and use tax matters, which is included in Accrued Liabilities on the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, respectively.

11. Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this ASU require that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for disposals of a significant part of an organization that does not qualify as discontinued operations. The amendments in this ASU are effective prospectively for annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company adopted ASU 2014-08 as of January 1, 2015 with no material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. Adoption is permitted under the ASU using either a full or modified retrospective application approach. On July 9, 2015, the FASB voted to approve a one-year deferral of the ASU which would make it effective for annual periods beginning after December 15, 2017, and interim periods within those years. The FASB expects to issue its final ASU formally amending the effective date by the end of the third quarter of 2015. The Company is in the process of evaluating the impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and in certain circumstances to provide related footnote disclosures. The ASU is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years using a retrospective approach, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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12. Subsequent Events

On July 13, 2015, the Company commenced a solicitation of votes for a prepackaged plan of reorganization from holders of its Outstanding Notes, Convertible Notes and Legacy Notes. The solicitation is scheduled to end on August 12, 2015 (See Note 1).

In anticipation of the Chapter 11 filing, the Debtors opted to conserve cash and not to make certain interest payments due on July 15, 2015 on the Company's 8.75% Senior Notes (See Note 1).

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements as of June 30, 2015 and for the three and six months ended June 30, 2015 and June 30, 2014, included elsewhere herein, and with our Annual Report on Form 10-K for the year ended December 31, 2014. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please read "Forward-Looking Statements" below for a discussion of certain limitations inherent in such statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. Please also read "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, and Item 1A of Part II of this quarterly report for a discussion of certain risks facing our company.

OVERVIEW

We are a leading provider of shallow-water drilling and marine services to the oil and natural gas exploration and production industry globally. We provide these services to national oil and gas companies, major integrated energy companies and independent oil and natural gas operators. As of July 21, 2015, we operated a fleet of 27 jackup rigs, including one rig under construction, and 24 liftboat vessels. Our diverse fleet is capable of providing services such as oil and gas exploration and development drilling, well service, platform inspection, maintenance and decommissioning operations in several key shallow-water provinces around the world.

Our drilling rigs are used primarily for exploration and development drilling in shallow waters. Under most of our contracts, we are paid a fixed daily rental rate called a "dayrate," and we are required to pay all costs associated with our own crews as well as the upkeep and insurance of the rig and equipment.

Our liftboats are self-propelled, self-elevating vessels with a large open deck space, which provides a versatile, mobile and stable platform to support a broad range of offshore maintenance and construction services throughout the life of an oil or natural gas well. Under most of our liftboat contracts, we are paid a fixed dayrate for the rental of the vessel, which typically includes the costs of a small crew of five to ten employees, and we also receive a variable rate for reimbursement of other operating costs such as catering, rental equipment and other items.

Restructuring Support Agreement

On June 17, 2015, Hercules Offshore, Inc. and certain of its U.S. domestic direct and indirect subsidiaries (together with Hercules Offshore, Inc., the "Debtors") entered into an agreement (the "Restructuring Support Agreement" or "RSA") with certain holders (the "Steering Group Members") collectively owning or controlling in excess of 66 2/3% of the aggregate outstanding principal amount of the Company's 10.25% senior notes due 2019, 8.75% senior notes due 2021, 7.5% senior notes due 2021 and 6.75% senior notes due 2022 (the "Outstanding Notes").

The RSA sets forth, subject to certain conditions, the commitment to and obligations of, on the one hand, the Debtors, and on the other hand, the Steering Group Members (and any successors or permitted assigns that become party thereto) in connection with a restructuring of the Outstanding Notes, the Company's 3.375% convertible senior notes due 2038 (the "Convertible Notes"), the Company's 7.375% senior notes due 2018 (the "Legacy Notes") and the Company's common stock, par value \$0.01 per share (the "Existing Common Stock") (the "Restructuring Transaction") pursuant to a pre-packaged or pre-negotiated plan of reorganization (the "Plan") to be filed under Chapter 11 ("Chapter 11") of the United States Bankruptcy Code. The Plan will be based on the restructuring term sheet included in the RSA (the "Term Sheet").

Under the proposed Plan, which requires Bankruptcy Court approval, our trade creditors and vendors are expected to be paid in full in the ordinary course of business, and all of our contracts are expected to remain in effect in accordance with their terms preserving the rights of all parties.

Pursuant to the terms of the RSA, the Steering Group Members agreed, among other things, and subject to certain conditions: (a) not to support any restructuring, reorganization, plan or sale process that is inconsistent with the RSA, (b) not to instruct an agent or indenture trustee for any of the Outstanding Notes to take any action that is inconsistent with the terms and conditions of the RSA, including, without limitation, the declaration of an event of default, or acceleration of the Outstanding Notes arising from, relating to, or in connection with the execution of the RSA; and at

the request of the Company, to waive or agree to forbear from exercising any right to take action in respect of any default or acceleration that may occur automatically without action of any as a result of the operation of the indentures governing the Outstanding Notes, and (c) to vote to accept the Plan.

We have agreed, among other things, and subject to certain conditions: (a) to use reasonable best efforts to obtain approval by the Bankruptcy Court of the documents required in connection with the Plan; (b) to take no action that is materially

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inconsistent with the RSA, the Term Sheet or the Plan; and (c) not to support any alternative plan or transaction other than the Plan.

The Term Sheet contemplates that the Debtors will reorganize as a going concern and continue their day-to-day operations substantially as currently conducted. Specifically, the material terms of the Plan are expected to effect, among other things, subject to certain conditions and as more particularly set forth in the Term Sheet, upon the effective date of the Plan, a substantial reduction in the Debtors' funded debt obligations (including \$1.2 billion of face amount of the Outstanding Notes). Certain principal terms of the Term Sheet are outlined below.

- New capital raise of first lien debt with a maturity of 4.5 years and bearing interest at LIBOR plus 9.5% per annum (1.0% LIBOR Floor), payable in cash, issued at a price equal to 97% of the principal amount. The first lien debt would consist of \$450 million for general corporate use and to finance the remaining construction cost of our newbuild rig, the Hercules Highlander, and would be guaranteed by substantially all of our U.S. domestic and international subsidiaries and secured by liens on substantially all of our domestic and foreign assets. The first lien debt would include financial covenants and other terms and conditions.

- Exchange of the Outstanding Notes, Legacy Notes and Convertible Notes for 96.9% of our common stock issued in the reorganization ("New Common Stock").

If the Plan is consummated as contemplated by the Term Sheet, holders of our Existing Common Stock will hold 3.1% of the New Common Stock and will receive warrants to purchase New Common Stock on a pro rata basis (the "Warrants"). The Warrants are exercisable at any time until their expiration date for a per share price based upon a \$1.55 billion total enterprise value. The expiration date for the Warrants will be six years from the effective date of the reorganization, subject to the earlier expiration upon the occurrence of certain extraordinary events. If the terms for exercise of the Warrants are not met before the applicable expiration date, then holders of our Existing Common Stock shall receive only 3.1% of the New Common Stock and shall not realize any value under the terms of the Warrants. The RSA may be terminated upon the occurrence of certain events, including the failure to meet specified milestones related to filing, confirmation and consummation of the Plan, among other requirements, and in the event of certain breaches by the parties under the RSA. There can be no assurance that a Restructuring Transaction will be consummated.

### Launch of Solicitation of Votes for Prepackaged Reorganization Plan

On July 13, 2015, we commenced a solicitation of votes for a prepackaged plan of reorganization from holders of our Outstanding Notes, Convertible Notes and Legacy Notes. The solicitation is scheduled to end on August 12, 2015.

### Termination of Credit Agreement

The entry into the RSA or the matters contemplated thereby may be deemed to have constituted an event of default with respect to the Credit Facility and the Outstanding Notes. In connection with the RSA, we terminated our Credit Facility effective June 22, 2015. There were no amounts outstanding and no letters of credit issued under the Credit Facility at that time. The obligations under the Credit Facility were jointly and severally guaranteed by substantially all of our domestic subsidiaries. Liens on our vessels that secured the Credit Facility have been released. We maintained compliance with all covenants under the Credit Facility through the termination date and have paid all fees in full.

### Recent Dayrate Reductions

On February 25, 2015, we received a notice from Saudi Aramco terminating for convenience our drilling contract for the Hercules 261, effective on or about March 27, 2015. We received subsequent notices from Saudi Aramco extending the effective date of termination to May 31, 2015. On June 1, 2015, we received notice from Saudi Aramco reinstating the drilling contract on the Hercules 261, in exchange for dayrate concessions on the Hercules 261, Hercules 262 and Hercules 266 from their existing contracted rates to \$67,000 per day. These reduced dayrates are effective retroactively from January 1, 2015 through December 31, 2016 for the Hercules 261 and Hercules 262, and through the remaining contract term for the Hercules 266. As the dayrate concessions are effective retroactive to January 1, 2015, we have made an adjustment to revenue for amounts earned under these contracts during the period from January 1, 2015 through March 31, 2015. This adjustment of \$13.4 million was recorded in the second quarter of 2015.

### Other Events

In anticipation of the Chapter 11 filing, the Debtors opted to conserve cash and not to make certain interest payments due on July 15, 2015 on the Company's 8.75% Senior Notes. The aggregate amount of those interest payments was \$17.5 million. If the Debtors have not filed for Chapter 11 and interest is not paid within 30 days of the due date, it would be considered an event of default under the 8.75% Senior Notes which would trigger cross default provisions in each of the Company's other Outstanding Notes.

Table of Contents**Drilling Contract Award and Rig Construction Contract**

In May 2014, we signed a five-year drilling contract with Maersk Oil North Sea UK Limited ("Maersk") for a newbuild jackup rig, Hercules Highlander, we will own and operate. Contract commencement is expected in mid-2016. In support of the drilling contract, in May 2014, we signed a rig construction contract with Jurong Shipyard Pte Ltd ("JSL") in Singapore. This High Specification, Harsh Environment newbuild rig is based on the Friede & Goldman JU-2000E design, with a 400 foot water depth rating and enhancements that will provide for greater load-bearing capabilities and operational flexibility. The shipyard cost of the rig is estimated at approximately \$236 million. Including project management, spares, commissioning and other costs, total delivery cost is estimated at approximately \$270 million, of which approximately \$216 million remains to be spent at June 30, 2015. The total delivery cost estimate excludes any customer specific outfitting that is reimbursable to us, costs to mobilize the rig to the first well, as well as capitalized interest. We paid \$23.6 million, or 10% of the shipyard cost, to JSL in May 2014 and made a second 10% payment in May 2015 with the final 80% of the shipyard payment due upon delivery of the rig, which is expected to be in April 2016.

**Perisai Management Contract**

In November 2013, we entered into an agreement with Perisai Drilling Sdn Bhd ("Perisai") whereby we agreed to market, manage and operate two Pacific Class 400 design new-build jackup drilling rigs, Perisai Pacific 101 and Perisai Pacific 102 ("Perisai Agreement"). Pursuant to the terms of the agreement, Hercules is reimbursed for all operating expenses and Perisai pays for all capital expenditures. We receive a daily management fee for the rig and a daily operational fee equal to 12% of the rig-based EBITDA, as defined in the Perisai Agreement. In August 2014, Perisai Pacific 101 commenced work on a three-year drilling contract in Malaysia. Perisai Pacific 102 was scheduled to be delivered by the shipyard by mid-2015. It is our understanding that delivery has been delayed for an uncertain period of time. Specific to the Perisai Agreement, we recognized the following results in our International Offshore segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Revenue	\$2.9	\$2.7	\$7.1	\$4.0
Operating Expenses	1.7	1.8	4.3	3.0

**Contract Backlog**

Our backlog at July 21, 2015, totaled approximately \$904.3 million for our executed contracts, including the Maersk contract for the newbuild jackup rig, Hercules Highlander. Approximately \$67.1 million of this estimated backlog is expected to be realized during the remainder of 2015. We calculate our estimated contract revenue backlog, or future contracted revenue, as the contract dayrate multiplied by the number of days remaining on the contract, assuming full utilization, less any penalties or reductions in dayrate for late delivery or non-compliance with contractual obligations. Backlog excludes revenue for management agreements, mobilization, demobilization, contract preparation and customer reimbursables. The amount of actual revenue earned and the actual periods during which revenue is earned will be different than the backlog disclosed or expected due to various factors. Downtime due to various operational factors, including unscheduled repairs, maintenance, operational delays, health, safety and environmental incidents, weather events in the Gulf of Mexico and elsewhere and other factors (some of which are beyond our control), may result in lower actual revenue than the full contractual operating dayrate. In some of the contracts, our customer has the right to terminate the contract without penalty and in certain instances, with little or no notice.

**Regulation**

In the aftermath of the Macondo well blowout incident in April 2010, the Bureau of Safety and Environmental Enforcement and the Bureau of Ocean Energy Management have proposed and implemented regulations and requirements that add safety measures, increase permit scrutiny and add other requirements and policies such as contractor sanctions that could materially increase the cost of offshore drilling in the U.S. Gulf of Mexico.

Restrictions on oil and gas development and production activities in the U.S. Gulf of Mexico, and the promulgation of Notices to Lessees have impacted and may continue to impact our operations. In addition, the federal government has considered legislation that could impose additional equipment and safety requirements on operators and drilling

contractors in the U.S. Gulf of Mexico as well as regulations relating to the protection of the environment, all of which could materially adversely affect our financial condition and results of operations.



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## RESULTS OF OPERATIONS

The following table sets forth financial information by operating segment and other selected information for the periods indicated:

	Three Months Ended June 30,		Change	% Change	
	2015	2014			
	(Dollars in thousands)				
Domestic Offshore:					
Number of rigs (as of end of period)	18	26			
Revenue	\$40,624	\$140,383	\$(99,759)	) (71.1	)%
Operating expenses	26,441	63,538	(37,097)	) (58.4	)%
Depreciation and amortization expense	11,665	17,978	(6,313)	) (35.1	)%
General and administrative expenses	1,134	1,584	(450)	) (28.4	)%
Operating income	\$1,384	\$57,283	\$(55,899)	) (97.6	)%
International Offshore:					
Number of rigs (as of end of period)	9	10			
Revenue	\$17,463	\$71,725	\$(54,262)	) (75.7	)%
Operating expenses	35,511	44,061	(8,550)	) (19.4	)%
Depreciation and amortization expense	20,959	19,075	1,884	9.9	%
General and administrative expenses	1,469	1,864	(395)	) (21.2	)%
Operating income (loss)	\$(40,476)	) \$6,725	\$(47,201)	) n/m	
International Liftboats:					
Number of liftboats (as of end of period)	24	24			
Revenue	\$21,162	\$30,855	\$(9,693)	) (31.4	)%
Operating expenses	15,039	19,126	(4,087)	) (21.4	)%
Depreciation and amortization expense	4,166	5,616	(1,450)	) (25.8	)%
General and administrative expenses	1,140	6,826	(5,686)	) (83.3	)%
Operating income (loss)	\$817	\$(713)	) \$1,530	n/m	
Total Company:					
Revenue	\$79,249	\$242,963	\$(163,714)	) (67.4	)%
Operating expenses	76,991	126,725	(49,734)	) (39.2	)%
Depreciation and amortization expense	37,451	43,670	(6,219)	) (14.2	)%
General and administrative expenses	24,990	22,519	2,471	11.0	%
Operating income (loss)	(60,183)	) 50,049	(110,232)	) n/m	
Interest expense	(24,737)	) (26,069)	) 1,332	(5.1	)%
Loss on extinguishment of debt	(1,884)	) (4,767)	) 2,883	n/m	
Other, net	(200)	) 214	(414)	) n/m	
Income (loss) before income taxes	(87,004)	) 19,427	(106,431)	) n/m	
Income tax provision	(1,246)	) (12,781)	) 11,535	(90.3	)%
Net income (loss)	\$(88,250)	) \$6,646	\$(94,896)	) n/m	

"n/m" means not meaningful.

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The following table sets forth selected operational data by operating segment for the periods indicated:

## Three Months Ended June 30, 2015

	Operating Days	Available Days	Utilization(1)	Average Revenue per Day(2)	Average Operating Expense per Day(3)
Domestic Offshore	439	819	53.6	% \$92,538	\$32,284
International Offshore	364	728	50.0	% 47,975	48,779
International Liftboats	1,041	2,093	49.7	% 20,329	7,185

## Three Months Ended June 30, 2014

	Operating Days	Available Days	Utilization(1)	Average Revenue per Day(2)	Average Operating Expense per Day(3)
Domestic Offshore	1,297	1,638	79.2	% \$108,237	\$38,790
International Offshore	455	728	62.5	% 157,637	60,523
International Liftboats	1,277	2,093	61.0	% 24,162	9,138

Utilization is defined as the total number of days our rigs or liftboats, as applicable, were under contract, known as operating days, in the period as a percentage of the total number of available days in the period. Days during which our rigs and liftboats were undergoing major refurbishments, upgrades or construction, and days during which our rigs and liftboats are cold stacked, are not counted as available days. Days during which our liftboats are in the shipyard undergoing drydocking or inspection are considered available days for the purposes of calculating utilization.

(1) Average revenue per rig or liftboat per day is defined as revenue earned by our rigs or liftboats, as applicable, in the period divided by the total number of operating days for our rigs or liftboats, as applicable, in the period.

(2) Average operating expense per rig or liftboat per day is defined as operating expenses, excluding depreciation and amortization, incurred by our rigs or liftboats, as applicable, in the period divided by the total number of available days in the period. We use available days to calculate average operating expense per rig or liftboat per day rather than operating days, which are used to calculate average revenue per rig or liftboat per day, because we incur operating expenses on our rigs and liftboats even when they are not under contract and earning a dayrate.

For the Three Months Ended June 30, 2015 and 2014

## Revenue

Consolidated. The decrease in consolidated revenue is described below.

Domestic Offshore. Revenue decreased for our Domestic Offshore segment primarily as a result of a decline in operating days due to lower demand in the Current Quarter as compared to the Comparable Quarter, which contributed to a decrease of approximately \$79 million. Additionally, our Domestic Offshore segment realized lower average dayrates in the Current Quarter as compared to the Comparable Quarter, which contributed to a decrease in revenue of approximately \$20 million.

International Offshore. Revenue for our International Offshore segment decreased due to the following:

\$18.6 million decrease from Hercules Triumph primarily due to the rig being ready stacked in the Current Quarter; \$13.0 million decrease from Hercules 208 primarily due to the rig being warm stacked in the Current Quarter; and \$7.3 million decrease from Hercules Resilience primarily due to the rig being ready stacked in the Current Quarter. Additionally, on June 1, 2015, Saudi Aramco provided a notice reducing the dayrates under its contracts for Hercules 261, Hercules 262 and Hercules 266. For Hercules 261 and Hercules 262, the reduced dayrates apply from January 1, 2015 through December 31, 2016 and for Hercules 266, the reduced dayrates apply to the remaining term of its contract. Revenue for our International Offshore segment included an adjustment in the Current Quarter to reduce revenue for the retroactive dayrate concessions for the period January 1, 2015 to March 31, 2015 on the Hercules 261,

Hercules 262 and Hercules 266 of \$6.1 million, \$2.2 million and \$5.1 million, respectively. International Liftboats. The decrease in revenue from our International Liftboats segment resulted from lower average revenue per vessel per day and a decline in operating days in the Current Quarter as compared to the Comparable Quarter of approximately \$4.9 million and \$4.8 million, respectively.

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### Operating Expenses

Consolidated. The decrease in consolidated operating expenses is described below.

Domestic Offshore. The decrease in operating expenses for our Domestic Offshore segment is primarily due to the following:

- \$24.0 million decrease in labor costs in the Current Quarter as compared to the Comparable Quarter;
- \$11.1 million decrease in repairs and maintenance expense in the Current Quarter as compared to the Comparable Quarter;
- \$3.2 million decrease to costs associated with workers' compensation;
- \$2.8 million decrease to insurance costs;
- \$2.1 million decrease to catering expenses; partially offset by
- \$3.4 million net loss on the sale of assets in the Current Quarter; and
- \$7.4 million gain on the sale of Hercules 250 and Hercules 2002 in the Comparable Quarter.

International Offshore. The decrease in operating expenses for our International Offshore segment is primarily due to the following:

- \$6.2 million decrease from Hercules Resilience primarily due to the rig being ready stacked during the Current Quarter;
- \$3.9 million decrease from Hercules 208 due to the rig being warm stacked during the Current Quarter and amortization of deferred contract preparation and mobilization costs in the Comparable Quarter;
- \$3.7 million decrease from Hercules 267 primarily due to the rig being in the shipyard for repairs and maintenance a portion of the Comparable Quarter;
- \$2.7 million decrease from Hercules 261 primarily due to cost reductions in the Current Quarter and amortization of deferred contract preparation costs in the Comparable Quarter;
- \$2.6 million decrease from Hercules 262 primarily due to a decrease in repairs and maintenance expense in the Current Quarter as compared to the Comparable Quarter and amortization of deferred contract preparation costs in the Comparable Quarter;
- \$2.0 million decrease from Hercules Triumph primarily due to the rig being ready stacked during the Current Quarter; partially offset by
- \$10.5 million gain on the sale of Hercules 258 in April 2014; and
- \$2.8 million increase from Hercules 260 primarily due to the rig being in the shipyard preparing for a contract a portion of the Current Quarter.

International Liftboats. The decrease in operating expenses for our International Liftboats segment is largely due to a decrease in equipment rental expenses, repairs and maintenance expense and contract labor costs in the Current Quarter as compared to the Comparable Quarter of \$1.4 million, \$0.9 million and \$0.8 million, respectively.

### Depreciation and Amortization

The decrease in depreciation and amortization is largely due to the rigs impaired in 2014, contributing a \$7.5 million decrease in the Current Quarter as compared to the Comparable Quarter. Additionally, drydock amortization decreased \$1.1 million. These decreases are partially offset by additional depreciation of \$3.6 million for capital projects.

### General and Administrative Expenses

The increase in general and administrative expenses is primarily related to a \$9.5 million increase in legal and professional fees, primarily due to certain costs in Corporate related to financing and restructuring activities, during the Current Quarter as compared to the Comparable Quarter. This increase is partially offset by a bad debt provision of \$5.3 million in the Comparable Quarter in the International Liftboats segment. Additionally, travel expenses decreased by \$0.8 million in the Current Quarter as compared to the Comparable Quarter and Corporate labor costs decreased \$0.5 million in the Current Quarter as compared to the Comparable Quarter.

### Interest Expense

The decrease in interest expense is primarily due to higher interest capitalization on the Hercules Highlander new build project in the Current Quarter as compared to the Comparable Quarter.

### Loss on Extinguishment of Debt

During the Current Quarter, we terminated our Credit Facility and wrote off \$1.8 million in associated unamortized debt issuance costs. In addition, we expensed \$0.1 million in associated professional fees.

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During the Comparable Quarter, we redeemed the remaining \$79.9 million aggregate principal amount of our 7.125% Senior Secured Notes and expensed \$4.3 million for the call premium and wrote off \$0.5 million in unamortized debt issuance costs associated with these notes.

**Income Tax Provision**

During the Current Quarter we generated an income tax provision of \$1.2 million compared to an income tax provision of \$12.8 million in the Comparable Quarter. The change is primarily related to a decrease in foreign income tax due to a reduction in operations in foreign jurisdictions in the Current Quarter as compared to the Comparable Quarter.

The following table sets forth financial information by operating segment and other selected information for the periods indicated:

	Six Months Ended June 30,		Change	% Change	
	2015	2014			
	(Dollars in thousands)				
<b>Domestic Offshore:</b>					
Number of rigs (as of end of period)	18	26			
Revenue	\$93,499	\$283,648	\$(190,149)	(67.0)	)%
Operating expenses	62,407	136,338	(73,931)	(54.2)	)%
Depreciation and amortization expense	23,358	35,349	(11,991)	(33.9)	)%
General and administrative expenses	2,520	3,132	(612)	(19.5)	)%
Operating income	\$5,214	\$108,829	\$(103,615)	(95.2)	)%
<b>International Offshore:</b>					
Number of rigs (as of end of period)	9	10			
Revenue	\$69,111	\$152,663	\$(83,552)	(54.7)	)%
Operating expenses	85,678	91,599	(5,921)	(6.5)	)%
Depreciation and amortization expense	41,298	35,701	5,597	15.7	%
General and administrative expenses	3,463	3,996	(533)	(13.3)	)%
Operating income (loss)	\$(61,328)	) \$21,367	\$(82,695)	n/m	)
<b>International Liftboats:</b>					
Number of liftboats (as of end of period)	24	24			
Revenue	\$39,258	\$63,386	\$(24,128)	(38.1)	)%
Operating expenses	28,505	39,540	(11,035)	(27.9)	)%
Depreciation and amortization expense	8,598	10,742	(2,144)	(20.0)	)%
General and administrative expenses	1,689	8,253	(6,564)	(79.5)	)%
Operating income	\$466	\$4,851	\$(4,385)	(90.4)	)%
<b>Total Company:</b>					
Revenue	\$201,868	\$499,697	\$(297,829)	(59.6)	)%
Operating expenses	176,590	267,477	(90,887)	(34.0)	)%
Depreciation and amortization expense	74,669	83,753	(9,084)	(10.8)	)%
General and administrative expenses	40,750	40,746	4	—	%
Operating income (loss)	(90,141)	) 107,721	(197,862)	n/m	)
Interest expense	(49,697)	) (48,970)	) (727)	1.5	%
Loss on extinguishment of debt	(1,884)	) (19,925)	) 18,041	n/m	)
Other, net	220	364	(144)	(39.6)	)%
Income (loss) before income taxes	(141,502)	) 39,190	(180,692)	n/m	)
Income tax provision	(3,863)	) (12,628)	) 8,765	(69.4)	)%
Net income (loss)	\$(145,365)	) \$26,562	\$(171,927)	n/m	)

"n/m" means not meaningful.



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The following table sets forth selected operational data by operating segment for the periods indicated:

## Six Months Ended June 30, 2015

	Operating Days	Available Days	Utilization(1)	Average Revenue per Day(2)	Average Operating Expense per Day(3)
Domestic Offshore	972	1,706	57.0	% \$96,192	\$36,581
International Offshore	709	1,448	49.0	% 97,477	59,170
International Liftboats	1,829	4,163	43.9	% 21,464	6,847

## Six Months Ended June 30, 2014

	Operating Days	Available Days	Utilization(1)	Average Revenue per Day(2)	Average Operating Expense per Day(3)
Domestic Offshore	2,641	3,258	81.1	% \$107,402	\$41,847
International Offshore	1,050	1,403	74.8	% 145,393	65,288
International Liftboats	2,476	4,163	59.5	% 25,600	9,498

For the Six Months Ended June 30, 2015 and 2014

## Revenue

Consolidated. The decrease in consolidated revenue is described below.

Domestic Offshore. Revenue decreased for our Domestic Offshore segment primarily as a result of a decline in operating days due to lower demand in the Current Period as compared to the Comparable Period, which contributed to a decrease of approximately \$160 million. Additionally, our Domestic Offshore segment realized lower average dayrates in the Current Period as compared to the Comparable Period, which contributed to a decrease in revenue of approximately \$30 million.

International Offshore. Revenue for our International Offshore segment decreased due to the following:

- \$39.9 million decrease from Hercules Triumph due to the rig not working in the Current Period as it was in the shipyard a portion of the Current Period preparing for North Sea operations and ready stacked the remainder of the Current Period;
- \$13.0 million decrease from Hercules Resilience due to the rig being ready stacked during the Current Period;
- \$10.5 million decrease from Hercules 266 primarily due to a reduction in dayrate during the Current Period;
- \$8.3 million decrease from Hercules 260 due to the rig being in the shipyard a portion of the Current Period preparing for a contract;
- \$7.6 million decrease from Hercules 208 primarily due to lower utilization in the Current Period as compared to the Comparable Period; and
- \$5.8 million decrease from Hercules 262 primarily due to \$1.7 million of mobilization revenue in the Comparable Period as well as fewer operating days and a reduction in dayrate in the Current Period.

International Liftboats. The decrease in revenue from our International Liftboats segment resulted primarily from lower utilization and lower average revenue per vessel per day, contributing to a decrease in revenue of approximately \$14 million and \$10 million, respectively.

## Operating Expenses

Consolidated. The decrease in consolidated operating expenses is described below.

Domestic Offshore. The decrease in operating expenses for our Domestic Offshore segment is primarily due to the following:

- \$40.2 million decrease in labor costs in the Current Period as compared to the Comparable Period;
- \$19.0 million decrease to repairs and maintenance expenses in the Current Period as compared to the Comparable Period;
- \$2.7 million decrease to state sales and use taxes in the Current Period as compared to the Comparable Period;



\$3.7 million decrease to insurance costs in the Current Period as compared to the Comparable Period;

\$5.6 million decrease to workers' compensation expense in the Current Period as compared to the Comparable Period;

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\$4.1 million decrease to catering costs in the Current Period as compared to the Comparable Period; partially offset by \$2.9 million net loss on asset sales in the Current Period; and \$6.5 net gain on asset sales in the Comparable Period.

International Offshore. The decrease in operating expenses for our International Offshore segment is primarily due to the following:

\$5.2 million decrease from Hercules Resilience primarily due to the rig being ready stacked in the Current Period;

\$3.2 million decrease from Hercules 208 due to lower repairs and maintenance expense in the Current Period as compared to the Comparable Period, amortization of deferred contract preparation and mobilization costs in the Comparable Period, partially offset by costs incurred in the Current Period for the rig's mobilization to Malaysia;

\$4.3 million decrease from Hercules 267 primarily due to the rig being in the shipyard for repairs and maintenance a portion of the Comparable Period;

\$3.3 million decrease from Hercules 261 primarily due to cost reductions in the Current Period and amortization of deferred contract preparation costs in the Comparable Period;

\$3.2 million decrease from Hercules Triumph primarily due to the rig being ready stacked a portion of the Current Period; partially offset by

\$10.5 million gain on the sale of Hercules 258 in April 2014; and

\$5.4 million increase from Hercules 260 primarily due to the rig being in the shipyard preparing for a contract a portion of the Current Period.

International Liftboats. The decrease in operating expenses for our International Liftboats segment is primarily due to a \$3.4 million reduction in labor costs in the Current Period as compared to the Comparable Period. Additionally, equipment rental expenses and contract labor costs decreased by \$2.2 million and \$1.4 million, respectively.

### Depreciation and Amortization

The decrease in depreciation and amortization is largely due to the rigs impaired in 2014, contributing a \$14.8 million decrease in the Current Period as compared to the Comparable Period. Additionally, drydock amortization decreased \$1.4 million. These decreases are partially offset by additional depreciation for the Hercules Resilience and other capital projects, which contributed to increases of \$2.1 million and \$7.3 million, respectively.

### General and Administrative

The increase in general and administrative expenses is primarily related to a \$10.0 million increase in legal and professional fees, primarily due to certain costs in Corporate related to financing and restructuring activities, during the Current Period as compared to the Comparable Period. This increase is partially offset by a \$5.5 million decrease in bad debt expense primarily related to a bad debt provision of \$5.3 million in the Comparable Period in the International Liftboats segment. Additionally, travel expenses decreased by \$1.5 million in the Current Period as compared to the Comparable Period and labor costs decreased \$1.6 million in the Current Period as compared to the Comparable Period, primarily on Corporate.

### Loss on Extinguishment of Debt

During the Current Period, we terminated our Credit Facility and wrote off \$1.8 million in associated unamortized debt issuance costs. In addition, we expensed \$0.1 million in associated professional fees.

During the Comparable Period, we redeemed \$300.0 million aggregate principal amount of our 7.125% Senior Secured Notes and expensed \$16.9 million for the call premium and wrote off \$1.9 million in unamortized debt issuance costs associated with these notes. In addition, we expensed \$1.1 million in bank fees related to the issuance of the 6.75% Senior Notes.

### Income Tax Provision

During the Current Period we generated an income tax provision of \$3.9 million compared to an income tax provision of \$12.6 million in the Comparable Period. The change is primarily related to a decrease in foreign income tax due to a reduction in operations in foreign jurisdictions in the Current Period as compared to the Comparable Period, partially offset by a \$4.8 million tax benefit recorded in the Comparable Period related to an expiration of the statute of limitations of an unrecognized tax benefit.

### Non-GAAP Financial Measures

Regulation G, General Rules Regarding Disclosure of Non-GAAP Financial Measures and other Securities and Exchange Commission ("SEC") regulations define and prescribe the conditions for use of certain Non-Generally Accepted Accounting

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Principles (“Non-GAAP”) financial measures. We use various Non-GAAP financial measures such as adjusted revenue, operating income, adjusted net income (loss), adjusted diluted earnings (loss) per share, EBITDA and Adjusted EBITDA. EBITDA is defined as net income plus interest expense, income taxes, depreciation and amortization. We believe that in addition to GAAP based financial information, Non-GAAP amounts are meaningful disclosures for the following reasons: i) each are components of the measures used by our board of directors and management team to evaluate and analyze our operating performance and historical trends, ii) each are components of the measures used by our management team to make day-to-day operating decisions, iii) each are components of the measures used by our management to facilitate internal comparisons to competitors’ results and the shallow-water drilling and marine services industry in general, iv) results excluding certain costs and expenses provide useful information for the understanding of the ongoing operations without the impact of significant special items, and v) the payment of certain bonuses to members of our management is contingent upon, among other things, the satisfaction by the Company of financial targets, which may contain Non-GAAP measures as components. We acknowledge that there are limitations when using Non-GAAP measures. The measures below are not recognized terms under GAAP and do not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for management’s discretionary use, as it does not consider certain cash requirements such as tax payments and debt service requirements. Because all companies do not use identical calculations, the amounts below may not be comparable to other similarly titled measures of other companies.

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The following tables present a reconciliation of the GAAP financial measures to the corresponding adjusted financial measures (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue	\$79,249	\$242,963	\$201,868	\$499,697
Adjustments:				
Retroactive dayrate concessions	13,427	—	—	—
Total adjustments	13,427	—	—	—
Adjusted Revenue	\$92,676	\$242,963	\$201,868	\$499,697
Operating Income (Loss)	\$(60,183 )	\$50,049	\$(90,141 )	\$107,721
Adjustments:				
Retroactive dayrate concessions	13,427	—	—	—
Net (gain) loss on sale of assets	3,564	(17,879 )	3,564	(17,879 )
Costs related to financing and restructuring activities	10,579	—	10,579	—
Total adjustments	27,570	(17,879 )	14,143	(17,879 )
Adjusted Operating Income (Loss)	\$(32,613 )	\$32,170	\$(75,998 )	\$89,842
Net Income (Loss)	\$(88,250 )	\$6,646	\$(145,365 )	\$26,562
Adjustments:				
Retroactive dayrate concessions	13,427	—	—	—
Net (gain) loss on sale of assets	3,564	(17,879 )	3,564	(17,879 )
Costs related to financing and restructuring activities	10,579	—	10,579	—
Loss on extinguishment of debt	1,884	4,767	1,884	19,925
Tax impact of adjustments	(671 )	—	—	—
Total adjustments	28,783	(13,112 )	16,027	2,046
Adjusted Net Income (Loss)	\$(59,467 )	\$(6,466 )	\$(129,338 )	\$28,608
Diluted Earnings (Loss) per Share	\$(0.55 )	\$0.04	\$(0.90 )	\$0.16
Adjustments:				
Retroactive dayrate concessions	0.08	—	—	—
Net (gain) loss on sale of assets	0.02	(0.11 )	0.02	(0.11 )
Costs related to financing and restructuring activities	0.07	—	0.07	—
Loss on extinguishment of debt	0.01	0.03	0.01	0.13
Tax impact of adjustments	—	—	—	—
Total adjustments	0.18	(0.08 )	0.10	0.02
Adjusted Diluted Earnings (Loss) per Share	\$(0.37 )	\$(0.04 )	\$(0.80 )	\$0.18
Net Income (Loss)	\$(88,250 )	\$6,646	\$(145,365 )	\$26,562
Interest expense	24,737	26,069	49,697	48,970
Income tax provision	1,246	12,781	3,863	12,628
Depreciation and amortization	37,451	43,670	74,669	83,753
EBITDA	(24,816 )	89,166	(17,136 )	171,913
Adjustments:				
Retroactive dayrate concessions	13,427	—	—	—
Net (gain) loss on sale of assets	3,564	(17,879 )	3,564	(17,879 )
Costs related to financing and restructuring activities	10,579	—	10,579	—
Loss on extinguishment of debt	1,884	4,767	1,884	19,925
Total adjustments	29,454	(13,112 )	16,027	2,046
Adjusted EBITDA	\$4,638	\$76,054	\$(1,109 )	\$173,959



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### CRITICAL ACCOUNTING POLICIES

We believe that our more critical accounting policies include those related to property and equipment, revenue recognition, income taxes, stock-based compensation and accrued self-insurance reserves. Inherent in such policies are certain key assumptions and estimates. For additional information regarding our critical accounting policies, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014.

### OUTLOOK

#### Offshore

Demand for our oilfield services is driven by our exploration and production ("E&P") customers' capital spending, which can experience significant fluctuations depending on current commodity prices and their expectations of future price levels, among other factors.

Drilling activity levels in the shallow-water U.S. Gulf of Mexico are dependent on crude oil and natural gas prices, prospectivity of hydrocarbons, capital budgets of our customers as well as their ability to obtain necessary drilling permits to operate in the region.

The supply of marketed jackup rigs in the U.S. Gulf of Mexico has declined significantly since 2008, driven by events such as the financial crisis that began in late 2008, the imposition of new regulations after the Macondo incident in 2010, the consolidation of domestic customers that began in 2013 and continued in 2014, and the sharp decline in crude oil prices since mid-2014. Such events have led drilling contractors to cold stack, or no longer actively market, a number of rigs in the region. In other instances, rigs have been sold for conversion purposes, scrapped, or mobilized out of the U.S. Gulf of Mexico. As a result, the number of existing, actively marketed jackup rigs in the U.S. Gulf of Mexico, has declined from approximately 63 rigs in late 2008 to 21 rigs as of July 20, 2015, excluding rigs scheduled to depart the region. From time to time, jackup rigs have mobilized back to the U.S. Gulf of Mexico. There are several older jackup rigs that are currently working in Mexico for PEMEX that will have contract expirations before year end 2015. We expect certain rigs that are not re-contracted by PEMEX to migrate to the U.S. Gulf of Mexico. It is uncertain whether these rigs will be actively marketed or cold stacked.

The fall in the price of crude oil, coupled with the consolidation of the domestic customer base, have negatively impacted demand for jackup rigs in the U.S. Gulf of Mexico. Jackup rig demand in the region, as defined by rigs under contract, has fallen from 31 rigs on July 21, 2014 to 10 rigs on July 20, 2015. We expect the overall environment for rig demand to remain relatively soft through 2015, assuming commodity prices remain at or near current levels throughout the year. Given these market conditions, we have executed a number of cost saving measures, including our decision to cold stack nine domestic rigs since the fourth quarter of 2014. We currently believe that this is an appropriate step to reduce costs, better balance the market and support utilization on our marketed rigs. However, should we see indicators of stronger demand, we will have capacity ready to respond timely to these signals.

Demand for rigs in our International Offshore segment is primarily dependent on crude oil prices. Due to the sharp drop in crude oil prices, we expect international capital spending budgets for 2015 to trend lower. This will have negative implications for jackup demand for all classes of rigs. In addition, new capacity growth expected over the next three years could put further pressure on the operating environment for the existing jackup rig fleet. As of July 20, 2015, there are approximately 128 jackup rigs under construction, on order and planned for delivery through 2018.

#### Liftboats

Demand for liftboats is typically a function of our customers' demand for offshore infrastructure construction, inspection and maintenance, well maintenance, well plugging and abandonment, and other related activities. Although activity levels for liftboats are not as closely correlated to commodity prices as our drilling segments, commodity prices are still a key driver of liftboat demand. Since early 2014, demand for liftboat services in West Africa has been weak. We believe this has been driven by budgetary constraints with major customers primarily in Nigeria, which we expect will continue through 2015. Although we currently do not expect additional vessels to mobilize into the region, if such mobilization were to occur, that could potentially impact the utilization and pricing for our liftboat fleet.

Utilization can and has been negatively impacted by local labor disputes, regional conflicts and other political events, particularly in West Africa. In the Middle East, we expect demand for liftboats to be a function of construction and

well servicing activity levels.

Over the long term, we believe that international liftboat demand will benefit from (i) the aging offshore infrastructure and maturing offshore basins, (ii) desire by our customers to economically produce from these mature basins and service their infrastructure and (iii) the cost advantages of liftboats to perform these services relative to alternatives. Tempering this demand outlook is (i) the risk of a prolonged period of low oil prices impacting production-related activity, (ii) our expectation of increased competition from newly constructed liftboats and mobilizations of existing liftboats primarily from the U.S. Gulf of Mexico to international markets, (iii) the risk of recurring political, social and union unrest, principally in West Africa and (iv) increased pressure to have local ownership of assets, principally in Nigeria.

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## LIQUIDITY AND CAPITAL RESOURCES

## Sources and Uses of Cash

Sources and uses of cash for the six months ended June 30, 2015 are as follows (in millions):

Net Cash Used in Operating Activities	\$(9.3	)
Net Cash Provided by (Used in) Investing Activities:		
Capital Expenditures	(65.9	)
Insurance Proceeds Received	3.5	
Proceeds from Sale of Assets, Net	7.1	
Total	(55.3	)
Net Cash Provided by (Used in) Financing Activities:	—	
Net Decrease in Cash and Cash Equivalents	\$(64.6	)

## Sources of Liquidity and Financing Arrangements

Our liquidity is comprised of cash on hand and cash from operations. We expect that our primary sources of liquidity during our restructuring will be from cash on hand and cash from operations. After the effective date of any plan of reorganization, we expect that our primary sources of liquidity will be from cash on hand, cash from operations and new debt pursuant to the RSA. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview".

## Cash Requirements and Contractual Obligations

Our current debt structure is used to fund our business operations.

## Balance Sheet Classification

While our debt has not been called or accelerated, our entry into the RSA (See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview") or the matters contemplated thereby may be deemed to have constituted an event of default with respect to the Outstanding Notes. In addition, if the RSA obligations were not completed and the Chapter 11 cases were not filed or approved and interest on the 8.75% Senior Notes has not been cured within the 30 day grace period, the Company's debt could be called and accelerated as the non-payment of interest would be considered an event of default under the 8.75% Senior Notes which would trigger cross default provisions in each of our other debt obligations. Therefore, our debt was classified as current and is included in Current Portion of Long-Term Debt in the Consolidated Balance Sheet as of June 30, 2015.

## Senior Secured Credit Agreement

On April 3, 2012, we entered into a credit agreement which as amended on July 8, 2013 (the "Credit Agreement") governed our senior secured revolving credit facility (the "Credit Facility"). The Credit Agreement provided for a \$150.0 million senior secured revolving credit facility.

In connection with the RSA, we terminated our Credit Facility effective June 22, 2015. There were no amounts outstanding and no letters of credit issued under the Credit Facility at that time. Liens on our vessels that secured the Credit Facility have been released. We maintained compliance with all covenants under the Credit Facility through the termination date and have paid all fees in full.

## Loss on Extinguishment of Debt

During the six months ended June 30, 2014 and 2015, we incurred the following charges which are included in Loss on Extinguishment of Debt in the Consolidated Statement of Operations for their respective periods:

In March 2014, we incurred a pretax charge of \$15.2 million, consisting of a \$12.6 million call premium and \$1.4 million of unamortized debt issuance costs related to the redemption of the 7.125% Senior Secured Notes, as well as \$1.1 million of bank fees related to the issuance of the 6.75% Senior Notes;

In April 2014, we incurred a pretax charge of \$4.8 million consisting of a \$4.3 million call premium and \$0.5 million of unamortized debt issuance costs related to the redemption of the remaining 7.125% Senior Secured Notes; and

In June 2015, we incurred a pretax charge of \$1.9 million consisting of \$1.8 million of unamortized debt issuance costs and \$0.1 million of associated professional fees related to the termination of the Credit Facility.

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## Insurance and Indemnity

Our drilling contracts provide for varying levels of indemnification from our customers, including for well control and subsurface risks, and in most cases, may require us to indemnify our customers for certain liabilities. Under our drilling contracts, liability with respect to personnel and property is customarily assigned on a “knock-for-knock” basis, which means that we and our customers assume liability for our respective personnel and property, regardless of how the loss or damage to the personnel and property may be caused, and even if we are grossly negligent. However, some of our customers have been reluctant to extend their indemnity obligations in instances where we are grossly negligent. Our customers typically assume responsibility for and agree to indemnify us from any loss or liability resulting from pollution or contamination, including clean-up and removal and third-party damages arising from operations under the contract and originating below the surface of the water, including as a result of blowouts or cratering of the well (“Blowout Liability”). The customer’s assumption for Blowout Liability may, in certain circumstances, be contractually limited or could be determined to be unenforceable in the event of our gross negligence, willful misconduct or other egregious conduct. In addition, we may not be indemnified for statutory penalties and punitive damages relating to such pollution or contamination events. We generally indemnify the customer for the consequences of spills of industrial waste or other liquids originating solely above the surface of the water and emanating from our rigs or vessels.

We maintain insurance coverage that includes coverage for physical damage, third-party liability, workers’ compensation and employer’s liability, general liability, vessel pollution and other coverages. Effective May 1, 2015, we completed the annual renewal of all of our key insurance policies. Our insurance policies typically consist of twelve-month policy periods, and the next renewal date for our insurance program is scheduled for May 1, 2016.

## Primary Marine Package Coverage

Our primary marine package provides for hull and machinery coverage for substantially all of our rigs (excluding Hercules Triumph and Hercules Resilience which are covered under separate policies, discussed below) and liftboats up to a scheduled value of each asset. The marine package includes protection and indemnity and maritime employer’s liability coverage for marine crew personal injury and death and certain operational liabilities. The major coverages of this package include the following:

## Events of Coverage

- Total maximum amount of hull and machinery coverage;
- Deductible for events that are not caused by a U.S. Gulf of Mexico named windstorm;
- Deductible for events that are caused by a U.S. Gulf of Mexico named windstorm;
- Maritime employer liability (crew liability);
- Personal injury and death of third parties;
- Limitations for coverage for losses caused in U.S. Gulf of Mexico named windstorms; and
- Vessel pollution emanating from our vessels and drilling rigs.

## Coverage Amounts and Deductibles

- \$753.3 million;
- \$5.0 million and \$1.0 million per occurrence for drilling rigs and liftboats, respectively;
- \$10.0 million;
- \$5.0 million self-insured retention with excess liability coverage up to \$200.0 million\*;
- Primary coverage of \$5.0 million per occurrence and \$10.0 million annual aggregate with additional excess liability coverage up to \$200.0 million\*, subject to a \$250,000 per occurrence deductible;
- Annual aggregate limit of liability of \$25.0 million for property damage (except \$50.0 million in respect to Hercules 300 and Hercules 350) and up to a total of \$100.0 million\* of liability coverage, including removal of wreck coverage; and
- Primary limits of \$5.0 million up to \$17.1 million per occurrence and excess liability coverage up to \$200.0 million\*.

\*Annual aggregate limit

Control-of-well events generally include an unintended flow from the well that cannot be contained by equipment on site (e.g., a blow-out preventer), by increasing the weight of the drilling fluid, or that does not naturally close itself off through what is typically described as "bridging over". We carry a contractor's extra expense policy with \$50.0 million primary liability coverage for well control costs, pollution and expenses incurred to redrill wild or lost wells, with excess liability coverage up to \$200.0 million for pollution liability that is covered in the primary policy. Additionally, we carry a contractor's expense policy for the Hercules Triumph and Hercules Resilience with \$50.0 million primary liability coverage for well control costs, pollution and expenses incurred to redrill wild or lost wells, with excess coverage up to \$25.0 million for pollution liability that is covered in the primary policy. The policies are subject to exclusions, limitations, deductibles, self-insured retention and other conditions, including the requirement for Company gross negligence or willful misconduct.

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Hercules Triumph and Hercules Resilience Marine Package Coverage

We have a separate primary marine package for Hercules Triumph and Hercules Resilience that provides the following:

Events of Coverage	Coverage Amounts and Deductibles
- Total maximum amount of hull and machinery coverage;	- \$250.0 million per rig;
- Deductible	- \$2.5 million per occurrence per rig;
- Extended contractual liability, including subsea activities, property and personnel, clean-up costs (primary coverage);	- \$25.0 million per occurrence;
- Pollution-by-blowout coverage (primary coverage); and	- \$10.0 million per occurrence; and
- Operational protection and indemnity coverage.	- \$500.0 million per rig, subject to a \$50,000 per occurrence deductible for claims originating outside the U.S. and a \$250,000 per occurrence deductible for claims originating in the U.S.

Adequacy of Insurance Coverage

We are responsible for the deductible portion of our insurance coverage. Management believes adequate accruals have been made on known and estimated exposures up to the deductible portion of our insurance coverage. Management believes that claims and liabilities in excess of the amounts accrued are adequately insured. However, our insurance is subject to exclusions and limitations, and there is no assurance that such coverage will adequately protect us against liability from all potential consequences. In addition, there is no assurance of renewal or the ability to obtain coverage acceptable to us.

Hercules 265 Incident and Settlement of Property Damage Insurance Claim

In July 2013, our jackup drilling rig Hercules 265, a 250' mat-supported cantilevered unit operating in the U.S. Gulf of Mexico Outer Continental Shelf lease block South Timbalier 220, experienced a well control incident. The rig sustained substantial damage in the incident and our insurance underwriters determined that the rig was a constructive total loss. The cause of the incident is unknown but is under investigation. We have removal of wreck coverage for this incident up to a total amount of \$110.0 million. During the second quarter of 2014, we received gross proceeds of \$9.1 million from the insurance underwriters as reimbursement for a portion of the wreck removal and related costs incurred, and used \$2.0 million to repurchase the Hercules 265 hull from the insurance underwriters. During the six months ended June 30, 2015, we received an additional \$3.5 million in gross proceeds from the insurance underwriters as reimbursement for a portion of the wreck removal and related costs incurred to date. We and our insurance underwriters continue to negotiate the insurance recovery amounts for costs related to the salvage of the rig and certain other insured losses.

Capital Expenditures

We currently expect total capital expenditures during the remainder of 2015 to approximate between \$35 and \$45 million. Planned capital expenditures include items related to general maintenance, regulatory, refurbishment, upgrades and contract specific modifications to our rigs and liftboats. Changes in timing of certain planned capital expenditure projects may result in a shift of spending levels beyond 2015.

From time to time, we may review possible acquisitions of rigs, liftboats or businesses, joint ventures, mergers or other business combinations, and we may have outstanding from time to time bids to acquire certain assets from other companies. If we acquire additional assets, we would expect that our ongoing capital expenditures as a whole would increase in order to maintain our equipment in a competitive condition.

Our ability to fund capital expenditures would be adversely affected if conditions deteriorate further in our business.

Contractual Obligations

Our contractual obligations and commitments principally include obligations associated with our outstanding indebtedness, certain income tax liabilities, bank guarantees, letters of credit, future minimum operating lease obligations, purchase commitments and management compensation obligations. Except for the following, during the

first six months of 2015, there were no material changes outside the ordinary course of business in the specified contractual obligations.

• Paid \$23.6 million to JSL related to the rig construction contract for Hercules Highlander (See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview").

Pursuant to the RSA, we terminated our credit facility. (See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview" and Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources").

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Pursuant to the RSA, all of our senior notes and convertible senior notes are expected to be exchanged for 96.9% of common stock to be issued in the reorganization. (See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview").

For additional information about our contractual obligations as of December 31, 2014, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Contractual Obligations" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014.

Accounting Pronouncements

See Note 11 to our condensed consolidated financial statements included elsewhere in this report.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("the Securities Act"), and Section 21E of the Exchange Act that are applicable to us and our business. All statements, other than statements of historical fact, included in this quarterly report, including statements that address outlook, activities, events or developments that we intend, contemplate, estimate, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These include such matters as:

- our high levels of indebtedness, debt service, covenant compliance and access to capital under current market conditions;
  - our ability to enter into new contracts for our rigs and liftboats, including the Hercules Triumph and Hercules Resilience, and future utilization rates and dayrates for the units;
  - our ability to maintain our contracts on current terms, to renew or extend our contracts, or enter into new contracts, when such contracts expire;
  - demand for our rigs and our liftboats;
  - activity levels of our customers and their expectations of future energy prices and ability to obtain drilling permits in an efficient manner or at all;
  - sufficiency and availability of funds for required capital expenditures, working capital and debt service;
  - our ability to close the sale and purchase of assets on time;
  - expected completion times for our repair, refurbishment and upgrade projects;
  - our ability to complete our shipyard projects incident free;
  - our ability to complete our shipyard projects on time to avoid cost overruns and contract penalties;
  - our ability to effectively reactivate rigs that we have stacked;
    - the timing and cost of shipyard projects and refurbishments and the return of idle rigs to work;
  - our plans to increase international operations;
  - expected useful lives of our rigs and liftboats;
  - future capital expenditures and refurbishment, reactivation, transportation, repair and upgrade costs;
  - liabilities and restrictions under applicable laws of the jurisdictions in which we operate and regulations protecting the environment;
    - expected outcomes of litigation, investigations, claims, disputes and tax audits and their expected effects on our financial condition and results of operations;
  - the existence of insurance coverage and the extent of recovery from our insurance underwriters for claims made under our insurance policies; and
  - expectations regarding offshore drilling and liftboat activity and dayrates, market conditions, demand for our rigs and liftboats, operating revenue, operating and maintenance expense, insurance coverage, insurance expense and deductibles, interest expense, debt levels and other matters with regard to outlook and future earnings.
- Forward-looking statements related to the prepackaged plan of reorganization involve known and unknown risks, uncertainties, assumptions and other factors which may cause our actual results, performance or achievements to be materially different from any results, performance or achievements expressed or implied by our forward-looking statements, including but not limited to potential adverse effects related to the following: potential de-listing of our

common stock on Nasdaq; potential restructuring of our outstanding debt and related effects on the holders of our outstanding common stock and notes; potential effects of the industry downturn on our business, financial condition and results of operations; potential limitations on our ability to maintain contracts and other critical business relationships; requirements for adequate liquidity to fund our operations

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in the future, including obtaining sufficient financing on acceptable terms; and other matters related to the potential restructuring and our indebtedness, including any defaults related thereto. Accordingly, investors should not place undue reliance on forward-looking statements. We do not intend to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Although it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and Item 1A of Part II of this quarterly report and the following:

- the potential adverse impact of the Restructuring Transaction on the Company's operations, management, and employees and the risks associated with operating the business during the Chapter 11 process;
- supplier and partner response to the Restructuring Transaction;
- oil and natural gas prices and industry expectations about future prices;
- levels of oil and gas exploration and production spending;
- demand for and supply of offshore drilling rigs and liftboats;
- our ability to enter into and the terms of future contracts;
- compliance by our customers with the terms of our contracts, including the dayrate and payment obligations;
- the adequacy and costs of sources of credit and liquidity;
- our ability to collect receivables due from our customers;
- the worldwide military and political environment, uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, North Africa, West Africa, Asia, Eastern Europe and other significant oil and natural gas producing regions or acts of terrorism or piracy;
- the ability of our customers in the U.S. Gulf of Mexico to obtain drilling permits in an efficient manner or at all;
- the impact of governmental laws and regulations, including laws and regulations in the U.S. Gulf of Mexico following the Macondo well incident;
- our ability to obtain in a timely manner visas and work permits for our employees working in international jurisdictions;
- the impact of local content and cabotage laws and regulations in international jurisdictions in which we operate, particularly Nigeria;
- the impact of tax laws, regulations, interpretations and audits in jurisdictions where we conduct business;
- uncertainties relating to the level of activity in offshore oil and natural gas exploration, development and production;
- competition and market conditions in the contract drilling and liftboat industries;
- the availability of skilled personnel and the rising cost of labor;
- labor relations and work stoppages, particularly in the Nigerian labor environment;
- operating hazards such as hurricanes, severe weather and seas, fires, cratering, blowouts and other well control incidents, war, terrorism and cancellation or unavailability of insurance coverage or insufficient insurance coverage;
- the impact of public health outbreaks;
- the enforceability and interpretations of indemnity and liability provisions contained in our drilling contracts, particularly in the U.S. Gulf of Mexico;
- the effect of litigation, investigations, audits and contingencies; and
- our inability to achieve our plans or carry out our strategy.

Many of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our



actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements except as required by applicable law.

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

We believe our exposure to market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014. For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", of such report.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Our chief executive officer and chief financial officer evaluated whether our disclosure controls and procedures as of the end of the period covered by this report were designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to achieve the foregoing objectives as of the end of the period covered by this report.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter 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**

The information set forth under the caption "Legal Proceedings" in Note 10 of the Notes to the Unaudited Consolidated Financial Statements in Item 1 of Part 1 of this report is incorporated by reference in response to this item.

**ITEM 1A. RISK FACTORS**

Except for the additional disclosures set forth below, for additional information about our risk factors, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.

We expect that our common stock will become delisted from trading on NASDAQ following our bankruptcy filing. In March 2015, we received a letter from NASDAQ notifying the Company that, for 30 consecutive business days, the bid price of our common stock was below the minimum \$1.00 per share requirement for continued listing on the NASDAQ Global Select Market under Nasdaq Listing Rule 5450(a)(1). In addition, we expect that our common stock will become delisted from trading on NASDAQ following our bankruptcy filing and will then be traded on the OTC Pink Market. The delisting could adversely impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock; limiting our ability to issue additional securities in the future; and limiting our ability to fund our operations.

Stockholders may experience the lack of an established market for our Common Stock as a consequence of our Bankruptcy Filing and Plan.

Holders of our common stock will be given the opportunity to opt out of granting certain releases set forth in the Plan. If and when an election is made by a stockholder to opt out of granting a release, such election will be binding on any buyer of such shares of common stock in any subsequent sale or re-sale of the shares prior to the date such shares are cancelled in accordance with the Plan. Specifically, if a stockholder that holds its shares through DTC opts out of granting the releases under the Plan, (1) the stockholder will no longer have a right to sell or transfer such shares except if the holder withdraws the opt-out election before the applicable deadline or, to the extent permitted and applicable requirements are met, in certain other limited circumstances and (2) such shares will be cancelled and discharged under the Plan as of the effective date and such opt-out shares will not receive any consideration or distributions of any kind whatsoever under the Plan. Under such circumstances, a trading market for shares of common stock held by stockholders who elect to opt out of the releases under the Plan may not exist, and electing to opt out of the releases will likely make it more difficult for such opt-out stockholders to dispose of their common

stock or to realize value on the shares at a time when they may wish to do so.

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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth for the periods indicated certain information with respect to our purchases of our common stock:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan (2)
April 1-30, 2015	2,773	\$0.77	N/A	N/A
May 1-31, 2015	468	0.95	N/A	N/A
June 1-30, 2015	1,723	0.32	N/A	N/A
Total	4,964	0.63	N/A	N/A

Represents the surrender of shares of our common stock to satisfy tax withholding obligations in connection with (1) the vesting of restricted stock issued to employees under our stockholder-approved 2004 Amended and Restated Long-Term Incentive Plan.

(2) We did not have at any time during the quarter, and currently do not have, a share repurchase program in place.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company's entry into the Restructuring Support Agreement or the matters contemplated thereby may be deemed to have constituted an event of default with respect to the Outstanding Notes.

## ITEM 6. EXHIBITS

- 10.1 — Restructuring Support Agreement and term sheet dated June 17, 2015 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 17, 2015).
- \*10.2 — Form of 2015 Performance Award Agreement for Executive Officers
- \*31.1 — Certification of Chief Executive Officer of Hercules pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 — Certification of Chief Financial Officer of Hercules pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32.1 — Certification of the Chief Executive Officer and the Chief Financial Officer of Hercules pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*101.INS — XBRL Instance Document
- \*101.SCH — XBRL Schema Document
- \*101.CAL — XBRL Calculation Linkbase Document
- \*101.DEF — XBRL Definition Linkbase Document
- \*101.LAB — XBRL Label Linkbase Document
- \*101.PRE — XBRL Presentation Linkbase Document

\* Filed herewith.

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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.

HERCULES OFFSHORE, INC.

By: /S/ John T. Rynd  
John T. Rynd  
Chief Executive Officer and President  
(Principal Executive Officer)

By: /S/ Troy L. Carson  
Troy L. Carson  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: July 23, 2015