HERCULES OFFSHORE, INC.
Form 10-Q
August 03, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

o **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	**56-2542838**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9 Greenway Plaza, Suite 2200 Houston, Texas	**77046**
(Address of principal executive offices)	**(Zip Code)**

(713) 350-5100
(Registrant s telephone number, including area code)

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

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

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

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

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

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

Common Stock, par value $0.01 per share	Outstanding as of July 23, 2010
	114,772,344

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HERCULES OFFSHORE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 91,724	$ 140,828
Restricted Cash	7,029	3,658
Accounts Receivable, Net of Allowance for Doubtful Accounts of $33,019 and $38,522 as of June 30, 2010 and December 31, 2009, Respectively	161,488	133,662
Prepaids	28,313	13,706
Current Deferred Tax Asset	12,195	22,885
Other	21,067	6,675
	321,816	321,414
Property and Equipment, Net	1,841,652	1,923,603
Other Assets, Net	29,756	32,459
	$ 2,193,224	$ 2,277,476
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term Debt and Current Portion of Long-term Debt	$ 4,924	$ 4,952
Insurance Notes Payable	21,930	5,484
Accounts Payable	50,803	51,868
Accrued Liabilities	52,949	67,773
Interest Payable	14,756	6,624
Taxes Payable		5,671
Other Current Liabilities	30,895	34,229
	176,257	176,601
Long-term Debt, Net of Current Portion	854,778	856,755
Other Liabilities	8,302	19,809
Deferred Income Taxes	205,283	245,799
Commitments and Contingencies		
Stockholders Equity:		
Common Stock, $0.01 Par Value; 200,000 Shares Authorized; 116,308 and 116,154 Shares Issued, Respectively; 114,762 and 114,650 Shares Outstanding, Respectively	1,163	1,162
Capital in Excess of Par Value	1,922,226	1,921,037
Treasury Stock, at Cost, 1,546 Shares and 1,504 Shares, Respectively	(50,320)	(50,151)
Accumulated Other Comprehensive Loss	(1,762)	(5,773)
Retained Deficit	(922,703)	(887,763)

	948,604	978,512
	$ 2,193,224	$ 2,277,476

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

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 165,895	$ 183,691	$ 316,744	$ 407,182
Costs and Expenses:				
Operating Expenses	108,321	116,097	216,957	265,341
Impairment of Property and Equipment		26,882		26,882
Depreciation and Amortization	48,350	51,091	98,604	99,937
General and Administrative	14,798	15,450	27,101	31,742
	171,469	209,520	342,662	423,902
Operating Loss	(5,574)	(25,829)	(25,918)	(16,720)
Other Income (Expense):				
Interest Expense	(21,259)	(14,561)	(42,998)	(30,350)
Gain on Early Retirement of Debt, Net		13,747		13,747
Other, Net	3,183	3,346	3,169	2,690
Loss Before Income Taxes	(23,650)	(23,297)	(65,747)	(30,633)
Income Tax Benefit	4,666	11,510	30,807	14,335
Loss from Continuing Operations	(18,984)	(11,787)	(34,940)	(16,298)
Loss from Discontinued Operation, Net of Taxes		(242)		(675)
Net Loss	$ (18,984)	$ (12,029)	$ (34,940)	$ (16,973)
Basic Loss Per Share:				
Loss from Continuing Operations	$ (0.17)	$ (0.13)	$ (0.30)	$ (0.18)
Loss from Discontinued Operation		(0.01)		(0.01)
Net Loss	$ (0.17)	$ (0.14)	$ (0.30)	$ (0.19)
Diluted Loss Per Share:				
Loss from Continuing Operations	$ (0.17)	$ (0.13)	$ (0.30)	$ (0.18)
Loss from Discontinued Operation		(0.01)		(0.01)
Net Loss	$ (0.17)	$ (0.14)	$ (0.30)	$ (0.19)
Weighted Average Shares Outstanding:				
Basic	114,757	88,733	114,727	88,368
Diluted	114,757	88,733	114,727	88,368

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

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash Flows from Operating Activities:		
Net Loss	$ (34,940)	$ (16,973)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used In) Operating Activities:		
Depreciation and Amortization	98,604	99,937
Stock-Based Compensation Expense	1,817	4,115
Deferred Income Taxes	(32,311)	(25,063)
Provision (Benefit) for Doubtful Accounts Receivable	(1,771)	543
Amortization of Deferred Financing Fees	1,683	2,096
Amortization of Original Issue Discount	1,998	2,386
Non-Cash Loss on Derivatives	2,835	
Gain on Insurance Settlement		(8,700)
Gain on Disposal of Assets	(6,729)	(332)
Gain on Early Retirement of Debt, Net		(13,747)
Impairment of Property and Equipment		26,882
Excess Tax Benefits from Stock-Based Arrangements	(377)	(5,031)
(Increase) Decrease in Operating Assets -		
Accounts Receivable	(26,055)	64,738
Prepaid Expenses and Other	13,027	8,383
Increase (Decrease) in Operating Liabilities -		
Accounts Payable	(1,065)	(31,542)
Insurance Notes Payable	(7,669)	(13,236)
Other Current Liabilities	(30,370)	(5,010)
Other Liabilities	(12,175)	(1,946)
Net Cash Provided by (Used In) Operating Activities	(33,498)	87,500
Cash Flows from Investing Activities:		
Additions of Property and Equipment	(11,015)	(62,068)
Deferred Drydocking Expenditures	(7,574)	(9,662)
Insurance Proceeds Received		8,717
Proceeds from Sale of Assets, Net	9,969	4,722
Increase in Restricted Cash	(3,371)	
Net Cash Used in Investing Activities	(11,991)	(58,291)
Cash Flows from Financing Activities:		
Short-term Debt Repayments		(2,455)
Long-term Debt Repayments	(4,003)	(2,250)
Redemption of 3.375% Convertible Senior Notes		(6,099)
Excess Tax Benefits from Stock-Based Arrangements	377	5,031
Other	11	(11)
Net Cash Used in Financing Activities	(3,615)	(5,784)

Net Increase (Decrease) in Cash and Cash Equivalents	(49,104)	23,425
Cash and Cash Equivalents at Beginning of Period	140,828	106,455
Cash and Cash Equivalents at End of Period	$ 91,724	$ 129,880

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

HERCULES OFFSHORE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net Loss	$ (18,984)	$ (12,029)	$ (34,940)	$ (16,973)
Other Comprehensive Income, Net of Taxes:				
Changes Related to Hedge Transactions	1,932	1,988	4,011	1,582
Comprehensive Loss	$ (17,052)	$ (10,041)	$ (30,929)	$ (15,391)

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, Inland, Domestic Liftboats, International Liftboats and Delta Towing segments (See Note 10). At June 30, 2010, the Company owned a fleet of 30 jackup rigs, 17 barge rigs, three submersible rigs, one platform rig, a fleet of marine support vessels operated through Delta Towing, a wholly owned subsidiary, and 60 liftboat vessels and operated an additional five liftboat vessels owned by a third party. In addition, the Company currently owns three retired jackup rigs and two retired inland barges, all located in the U.S. Gulf of Mexico, which are currently not expected to re-enter active service. 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 to present fairly the Company s Consolidated Balance Sheet at June 30, 2010, Consolidated Statements of Operations and Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2010 and 2009, and Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009. Although the Company believes the disclosures in these financial statements are adequate to make the interim information presented not misleading, 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, 2009 and the notes thereto included in the Company s Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, investments, intangible assets, property and equipment, income taxes, insurance, employment benefits and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

In December 2009, the Company entered into an agreement with First Energy Bank B.S.C. (MENAdrill) whereby it would market, manage and operate two Friede & Goldman Super M2 design, new-build jackup drilling rigs each with a maximum water depth of 300 feet. The rigs are currently under construction and one is scheduled to be delivered in each of the fourth quarter of 2010 and the first quarter of 2011. The Company is actively marketing the rigs globally on an exclusive basis.

In January 2010, the Company entered into an agreement with SKDP 1 Ltd., an affiliate of Skeie Drilling & Production ASA, to market, manage and operate an ultra high specification KFELS Class N new-build jackup drilling rig with a maximum water depth of 400 feet. The agreement was limited to a specified opportunity in the Middle East and expired by its terms during the second quarter when the rig was not selected by the operator.

Reclassifications

Certain reclassifications have been made to conform prior year financial information to the current period presentation.

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

Revenue Recognition

Revenues generated from our contracts are recognized as services are performed, as long as collectability is reasonably assured. For certain contracts, the Company may receive lump-sum fees for the mobilization of equipment and personnel. Mobilization fees received and costs incurred to mobilize a rig from one market to another under contracts longer than ninety days are recognized as services are performed over the term of the related drilling contract. Amounts related to mobilization fees are summarized below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Mobilization revenue deferred	$	$	$ 600	$ 12,000
Mobilization expense deferred				132
Mobilization revenue recognized	4,134	4,233	7,911	8,149
Mobilization expense recognized	676	700	1,592	1,393

For certain contracts, the Company may receive fees from its customers for capital improvements to its rigs. Such fees are deferred and recognized as services are performed over the term of the related contract. The Company capitalizes such capital improvements and depreciates them over the useful life of the asset.

The balances related to the Company s Deferred Mobilization and Contract Preparation Costs and Deferred Mobilization Revenue are as follows (in thousands):

	Balance Sheet Classification	As of June 30, 2010	As of December 31, 2009
Assets:			
Deferred Mobilization and Contract Preparation Expense-Current Portion	Other	$ 959	$ 1,092
Deferred Mobilization and Contract Preparation Expense-Non-Current Portion	Other Assets, Net	23	1,651
Liabilities:			
Deferred Mobilization Revenue-Current Portion	Other Current Liabilities	18,910	19,406
Deferred Mobilization Revenue-Non-Current Portion	Other Liabilities	3,502	12,628

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the historical carrying amount net of write-offs and allowance for doubtful accounts. Management of the Company monitors the accounts receivable from its customers for any collectability issues. An allowance for doubtful accounts is established based on reviews of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The Company had an allowance of $33.0 million and $38.5 million at June 30, 2010 and December 31, 2009, respectively.

Other Assets

Other assets consist of drydocking costs for marine vessels, other intangible assets, deferred income taxes, deferred costs, financing fees, investments, deposits and other. Drydocking costs are capitalized at cost and amortized on the straight-line method over a period of 12 months. Drydocking costs, net of accumulated amortization, at both June 30, 2010 and December 31, 2009, were $4.9 million. Amortization expense for drydocking costs was $3.4 million and $7.6 million for the three and six months ended June 30, 2010, respectively and $4.8 million and $8.6 million for the three and six months ended June 30, 2009, respectively.

Financing fees are deferred and amortized over the life of the applicable debt instrument. However, in the event of an early repayment of debt, the related unamortized deferred financing fees are expensed in connection with the repayment. Unamortized deferred financing fees at June 30, 2010 and December 31, 2009 were $13.0 million and $14.7 million, respectively. The amortization

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

expense related to the deferred financing fees is included in Interest Expense on the Consolidated Statements of Operations. Amortization expense for financing fees was \$0.8 million and \$1.7 million for the three and six months ended June 30, 2010, respectively and \$1.0 million and \$2.1 million for the three and six months ended June 30, 2009, respectively. In addition, the Company recognized a pretax charge of \$1.4 million during the second quarter of 2009 related to the write off of unamortized issuance costs related to its 3.375% Convertible Senior Notes in connection with the April 2009 debt repurchase and the June 2009 debt retirement (See Note 4).

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Restricted Cash

At June 30, 2010 and December 31, 2009, the Company had restricted cash of \$7.0 million and \$3.7 million to support surety bonds primarily related to the Company s Mexico and U.S. operations. In July 2010, the Company increased its restricted cash balance by \$6.1 million as additional collateral to support surety bonds related to its Mexico and U.S. operations (See Note 13).

2. Earnings Per Share

The Company calculates basic earnings per share by dividing net income 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 option and 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. Stock equivalents of 6,564,611 and 6,006,817 were anti-dilutive and are excluded from the calculation of the dilutive effect of stock equivalents for the diluted earnings per share calculations for the three and six months ended June 30, 2010, respectively. Stock equivalents of 4,826,061 and 4,343,526 were anti-dilutive and are excluded from the calculation of the dilutive effect of stock equivalents for the diluted earnings per share calculations for the three and six months ended June 30, 2009, respectively.

3. Dispositions

In December 2009, the Company entered into an agreement to sell its retired jackups *Hercules 191* and *Hercules 255* for \$5.0 million each. The sale of the *Hercules 191* was completed in April 2010 for gross proceeds of \$5.0 million, resulting in a gain of \$3.1 million. The sale of the *Hercules 255* is expected to close in the third quarter of 2010. In February 2010, the Company entered into an agreement to sell six of its retired barges for \$3.0 million of which \$2.2 million in gross proceeds was received during the first quarter of 2010 for the completion of the sale of three of the six barges resulting in a net gain of \$1.8 million. The sale of the remaining three barges was completed in April 2010 for gross proceeds of \$0.8 million resulting in a gain of \$0.4 million. Additionally, in July 2010, the Company entered into an agreement to sell retired jackup *Hercules 155* for \$4.8 million (See Note 13).

In June 2009, the Company entered into an agreement to sell its *Hercules 100* and *Hercules 110* jackup drilling rigs for a total purchase price of \$12.0 million. *Hercules 100* was classified as retired and was stacked in Sabine Pass, Texas, and *Hercules 110* was cold-stacked in Trinidad. The closing of the sale of *Hercules 100* and *Hercules 110* occurred in August 2009 and the net proceeds of \$11.8 million from the sale were used to repay a portion of the Company s term loan facility. The Company realized approximately \$26.9 million (\$13.1 million, net of tax) of impairment charges related to the write-down of *Hercules 110* to fair value less costs to sell during the second quarter of 2009 (See Note 6). The financial information for *Hercules 100* has historically been reported as part of the Domestic Offshore Segment and *Hercules 110* financial information has been reported as part of the International Offshore Segment.

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

4. Debt

Debt is comprised of the following (in thousands):

	June 30, 2010	December 31, 2009
Term Loan Facility, due July 2013	$ 478,849	$ 482,852
10.5% Senior Secured Notes, due October 2017	292,595	292,272
3.375% Convertible Senior Notes, due June 2038	84,746	83,071
7.375% Senior Notes, due April 2018	3,512	3,512
Total Debt	859,702	861,707
Less Short-term Debt and Current Portion of Long-term Debt	4,924	4,952
Total Long-term Debt, Net of Current Portion	$ 854,778	$ 856,755

Senior secured credit facility

The Company has a $653.8 million credit facility, consisting of a $478.8 million term loan facility and a $175.0 million revolving credit facility. The availability under the $175.0 million revolving credit facility must be used for working capital, capital expenditures and other general corporate purposes and cannot be used to prepay the term loan. Under the credit agreement which governs the credit facility (the Credit Agreement), the Company must comply with the following:

The total leverage ratio for any test period is calculated as the ratio of consolidated indebtedness on the test date to consolidated EBITDA for the trailing twelve months, all as defined in the Credit Agreement.

Test Date	Maximum Total Leverage Ratio
September 30, 2010	8.00 to 1.00
December 31, 2010	7.50 to 1.00
March 31, 2011	7.00 to 1.00
June 30, 2011	6.75 to 1.00
September 30, 2011	6.00 to 1.00
December 31, 2011	5.50 to 1.00
March 31, 2012	5.25 to 1.00
June 30, 2012	5.00 to 1.00
September 30, 2012	4.75 to 1.00
December 31, 2012	4.50 to 1.00
March 31, 2013	4.25 to 1.00
June 30, 2013	4.00 to 1.00

- At June 30, 2010, the Company s total leverage ratio was 8.09. There is no maximum total leverage requirement for the period ended June 30, 2010.

Maintain a minimum level of liquidity, measured as the amount of unrestricted cash and cash equivalents on hand and availability under the revolving credit facility, of (i) $100.0 million for the period between October 1, 2009 through December 31, 2010, (ii) $75.0 million during calendar year 2011 and (iii) $50.0 million thereafter. As of June 30, 2010, as calculated pursuant to the Credit Agreement, the Company s total liquidity was $256.7 million.

Maintain a minimum fixed charge coverage ratio as follows:

Period		**Fixed Charge Coverage Ratio**
July 1, 2009	December 31, 2011	1.00 to 1.00
January 1, 2012	March 31, 2012	1.05 to 1.00
April 1, 2012	June 30, 2012	1.10 to 1.00
July 1, 2012 and thereafter		1.15 to 1.00

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

- The consolidated fixed charge coverage ratio for any test period is defined as the sum of consolidated EBITDA for the test period plus an amount that may be added for the purpose of calculating the ratio for such test period, not to exceed $130.0 million in total during the term of the credit facility, to consolidated fixed charges for the test period, all as defined in the Credit Agreement. As of June 30, 2010, the Company s fixed charge coverage ratio was 1.0.

Mandatory prepayments of debt outstanding under the Credit Agreement with 50% of excess cash flow as defined in the Credit Agreement for the fiscal years ending December 31, 2010, 2011 and 2012, and with proceeds from:

- unsecured debt issuances, with the exception of refinancing;
- secured debt issuances;
- casualty events not used to repair damaged property;
- sales of assets in excess of $25 million annually; and

The Company s obligations under the Credit Agreement are secured by liens on a majority of its vessels and substantially all of its other personal property. Substantially all of the Company s domestic subsidiaries, and several of its international subsidiaries, guarantee the obligations under the Credit Agreement and have granted similar liens on several of their vessels and substantially all of their other personal property.

Other covenants contained in the Credit Agreement restrict, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions, other restricted payments, debt issuances, liens, investments, convertible notes repurchases and affiliate transactions. The Credit Agreement also contains a provision under which an event of default on any other indebtedness exceeding $25.0 million would be considered an event of default under the Company s Credit Agreement.

The Credit Agreement requires that the Company meet certain financial ratios and tests, which it met as of June 30, 2010. The Company s failure to comply with such covenants would result in an event of default under the Credit Agreement. An event of default could prevent the Company from borrowing under the revolving credit facility, which would in turn have a material adverse effect on the Company s available liquidity. Additionally, an event of default could result in the Company having to immediately repay all amounts outstanding under the credit facility, the 10.5% Senior Secured Notes and the 3.375% Convertible Senior Notes and in the foreclosure of liens on its assets.

As of June 30, 2010, no amounts were outstanding and $10.0 million in stand-by letters of credit had been issued under the revolving credit facility, therefore the remaining availability under this revolving credit facility was $165.0 million. Other than the required prepayments as outlined previously, the principal amount of the term loan amortizes in equal quarterly installments of approximately $1.2 million, with the balance due on July 11, 2013. All borrowings under the revolving credit facility mature on July 11, 2012. Interest payments on both the revolving and term loan facility are due at least on a quarterly basis and in certain instances, more frequently. As of June 30, 2010, $478.8 million was outstanding on the term loan facility and the interest rate was 6.00%. The annualized effective interest rate was 9.07% for the six months ended June 30, 2010 after giving consideration to revolver fees and derivative activity.

10.5% senior secured notes due 2017

The notional amount of the 10.5% Senior Secured Notes, its unamortized discount and its net carrying amount was $300.0 million, $7.4 million and $292.6 million, respectively, as of June 30, 2010 and $300.0 million, $7.7 million and $292.3 million, respectively, as of December 31, 2009. The unamortized discount is being amortized to interest expense over the life of the 10.5% Senior Secured Notes which ends in October 2017. During the three months ended June 30, 2010, the Company recognized $8.0 million, $5.2 million, net of tax, in interest expense, or $0.05 per diluted share, at an effective rate of 11%, of which $7.8 million related to the coupon rate of 10.5% and $0.2 million related to discount amortization. During the six months ended June 30, 2010, the Company recognized $16.0 million, $10.4 million, net of tax, in interest expense, or $0.09 per diluted share, at an effective rate of 11%, of which $15.7 million related to the coupon rate of 10.5% and $0.3 million related to discount amortization. There was no interest expense recognized during the three or six months ended June 30, 2009 as the 10.5% Senior Secured Notes were issued in October 2009.

The notes are guaranteed by all of the Company s existing and future restricted subsidiaries that incur or guarantee indebtedness under a credit facility, including the Company s existing credit facility. The notes are secured by liens on all collateral that secures the Company s obligations under its secured credit facility, subject to limited exceptions. The liens securing the notes share on an equal

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

and ratable first priority basis with liens securing the Company s credit facility. Under the intercreditor agreement, the collateral agent for the lenders under the Company s secured credit facility is generally entitled to sole control of all decisions and actions.