HERCULES OFFSHORE, INC.
Form 10-K
March 10, 2011

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

Form 10-K

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

For the fiscal year ended December 31, 2010
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)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, $0.01 par value per share	NASDAQ Global Select Market
Rights to Purchase Preferred Stock	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 Smaller reporting company o
(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 Act). Yes o No þ

The aggregate market value of the registrant s common stock held by non-affiliates as of June 30, 2010, based on the closing price on the NASDAQ Global Select Market on such date, was approximately $270 million. (As of such date, the registrant s directors and executive officers and LR Hercules Holdings, LP and its affiliates were considered affiliates of the registrant for this purpose.)

As of March 3, 2011, there were 115,032,964 shares of the registrant s common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the Annual Meeting of Stockholders to be held on May 10, 2011 are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

In this Annual Report on Form 10-K, we refer to Hercules Offshore, Inc. and its subsidiaries as we, the Company or Hercules Offshore, unless the context clearly indicates otherwise. Hercules Offshore, Inc. is a Delaware corporation formed in July 2004, with its principal executive offices located at 9 Greenway Plaza, Suite 2200, Houston, Texas 77046. Hercules Offshore s telephone number at such address is (713) 350-5100 and our Internet address is www.herculesoffshore.com.

Overview

Hercules Offshore, Inc. is 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 February 16, 2011, we owned a fleet of 30 jackup rigs, 17 barge rigs, three submersible rigs, one platform rig, a fleet of marine support vessels and 60 liftboat vessels. In addition, we operate five liftboat vessels owned by a third party. We own two retired jackup rigs, *Hercules 190* and *Hercules 254*, located in the U.S. Gulf of Mexico, for which we have an agreement to sell and we expect to close in the first quarter of 2011. 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.

We report our business activities in six business segments, which as of February 16, 2011, included the following:

Domestic Offshore includes 22 jackup rigs and three submersible rigs in the U.S. Gulf of Mexico that can drill in maximum water depths ranging from 85 to 350 feet. Ten of the jackup rigs are either working on short-term contracts or available for contracts, one is in the shipyard and eleven are cold-stacked. All three submersibles are cold-stacked.

International Offshore includes eight jackup rigs and one platform rig outside of the U.S. Gulf of Mexico. We have two jackup rigs working offshore in each of India and Saudi Arabia. We have one jackup rig contracted offshore in Malaysia, one jackup rig contracted in Angola and one platform rig under contract in Mexico. In addition, we have one jackup rig warm-stacked and one jackup rig cold-stacked in Bahrain.

Inland includes a fleet of six conventional and eleven posted barge rigs that operate inland in marshes, rivers, lakes and shallow bay or coastal waterways along the U.S. Gulf Coast. Three of our inland barges are either operating on short-term contracts or available and fourteen are cold-stacked.

Domestic Liftboats includes 41 liftboats in the U.S. Gulf of Mexico. Thirty-eight are operating or available for contracts and three are cold-stacked.

International Liftboats includes 24 liftboats. Twenty-one are operating or available for contracts offshore West Africa, including five liftboats owned by a third party, one is cold-stacked offshore West Africa and two are operating or available for contracts in the Middle East region.

Delta Towing our Delta Towing business operates a fleet of 29 inland tugs, 10 offshore tugs, 34 crew boats, 46 deck barges, 16 shale barges and five spud barges along and in the U.S. Gulf of Mexico and from time to time along the Southeastern coast and in Mexico. Of these vessels, 26 crew boats, 11 inland tugs, three offshore tugs, one deck barge

and one spud barge are cold-stacked, and the remaining are working, being repaired or available for contracts.

In December 2009, we entered into an agreement with First Energy Bank B.S.C. (MENAdrill) whereby we would market, manage and operate two Friede & Goldman Super M2 design new-build jackup drilling rigs, *Hull 109* and *Hull 110* (also known as *MENAdrill Hercules 1* and *2*, respectively), each with a maximum water depth of 300 feet. We received a notice of termination from MENAdrill with respect to *Hull 109* in December 2010, and MENAdrill paid us a termination fee of $250,000 due under the contract on the date of

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termination. It is our understanding that *Hull 110* has independently secured a contract in Mexico and we therefore, expect to receive an additional termination fee of $250,000.

In January 2011, we entered into an agreement with China Oilfield Services Limited (COSL) whereby we will market and operate a Friede & Goldman JU2000E jackup drilling rig with a maximum water depth of 400 feet. The agreement is limited to a specified opportunity in Angola.

Investment

In January 2011, we paid $10 million to purchase 5.0 million shares, an investment in approximately eight percent of the total outstanding equity of a new entity incorporated in Luxembourg, Discovery Offshore S.A. (Discovery Offshore), which investment was used by Discovery Offshore towards funding the down payments on two new-build ultra high specification harsh environment jackup drilling rigs (the Rigs). We also executed a construction management agreement (the Construction Management Agreement) and a services agreement (the Services Agreement) with Discovery Offshore with respect to each of the Rigs (See Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations *Recent Developments*).

Asset Purchase Agreement

In February 2011, we entered into an asset purchase agreement (the Asset Purchase Agreement) with Seahawk Drilling, Inc. and certain of its subsidiaries (Seahawk), pursuant to which Seahawk agreed to sell to us 20 jackup rigs and related assets**,** accounts receivable and cash and certain Seahawk liabilities for total consideration of approximately $105 million (the Consideration), as valued at the date of the Asset Purchase Agreement, preliminarily consisting of $25.0 million in cash plus 22.3 million shares of our common stock, par value $0.01 per share (the Stock Consideration), subject to adjustment (See Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations *Recent Developments*).

Credit Agreement Amendment

In March 2011, we amended our Credit Agreement for our term loan and revolving credit facility (See the information set forth under the caption Cash Requirements and Contractual Obligations in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources*).

Our Fleet

Our jackup rigs, submersible rigs and barge 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. Dayrate drilling contracts typically provide for higher rates while the unit is operating and lower rates or a lump sum payment for periods of mobilization or when operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other factors.

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. A liftboat contract generally is based on a flat dayrate for the vessel and crew. Our liftboat dayrates are determined by prevailing market rates, vessel availability and historical rates paid by the specific customer. Under most of our liftboat contracts, we receive a variable rate for reimbursement of costs such as catering, fuel, oil, rental equipment, crane overtime and other items. Liftboat contracts generally are for shorter terms than are drilling contracts, although international liftboat contracts may have terms of greater than one year.

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Jackup Drilling Rigs

Jackup rigs are mobile, self-elevating drilling platforms equipped with legs that can be lowered to the ocean floor until a foundation is established to support the drilling platform. Once a foundation is established, the drilling platform is jacked further up the legs so that the platform is above the highest expected waves. The rig hull includes the drilling rig, jackup system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, helicopter landing deck and other related equipment.

Jackup rig legs may operate independently or have a lower hull referred to as a mat attached to the lower portion of the legs in order to provide a more stable foundation in soft bottom areas, similar to those encountered in certain of the shallow-water areas of the U.S. Gulf of Mexico or U.S. GOM . Mat-supported rigs generally are able to more quickly position themselves on the worksite and more easily move on and off location than independent leg rigs. Twenty-one of our jackup rigs are mat-supported and nine are independent leg rigs.

Twenty-three of our rigs have a cantilever design that permits the drilling platform to be extended out from the hull to perform drilling or workover operations over some types of pre-existing platforms or structures. Seven rigs have a slot-type design, which requires drilling operations to take place through a slot in the hull. Slot-type rigs are usually used for exploratory drilling rather than development drilling, in that their configuration makes them difficult to position over existing platforms or structures. Historically, jackup rigs with a cantilever design have maintained higher levels of utilization than rigs with a slot-type design.

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As of February 16, 2011, 14 of our jackup rigs were operating under contracts ranging in duration from well-to-well to three years, at an average contract dayrate of approximately $71,643. In the following table, ILS means an independent leg slot-type jackup rig, MC means a mat-supported cantilevered jackup rig, ILC means an independent leg cantilevered jackup rig and MS means a mat-supported slot-type jackup rig.

The following table contains information regarding our jackup rig fleet as of February 16, 2011.

Rig Name	Type	Year Built/ Upgraded(c)	Maximum/ Minimum Water Depth Rating (Feet)	Rated Drilling Depth(a) (Feet)	Location	Status(b)
Hercules 85	ILS	1982	85/9	20,000	U.S. GOM	Cold Stacked
Hercules 101	MC	1980	100/20	20,000	U.S. GOM	Cold Stacked
Hercules 120	MC	1958	120/22	18,000	U.S. GOM	Contracted
Hercules 150	ILC	1979	150/10	20,000	U.S. GOM	Contracted
Hercules 152	MC	1980	150/22	20,000	U.S. GOM	Cold Stacked
Hercules 153	MC	1980/2007	150/22	25,000	U.S. GOM	Cold Stacked
Hercules 156	ILC	1983	150/14	20,000	Bahrain	Cold Stacked
Hercules 170	ILC	1981/2006	170/16	16,000	Bahrain	Warm Stacked
Hercules 173	MC	1971	173/22	15,000	U.S. GOM	Contracted
Hercules 185	ILC	1982/2009	150/20	20,000	Angola	Contracted
Hercules 200	MC	1979	200/23	20,000	U.S. GOM	Contracted
Hercules 201	MC	1981	200/23	20,000	U.S. GOM	Ready Stacked
Hercules 202	MC	1981	200/23	20,000	U.S. GOM	Contracted
Hercules 203	MC	1982	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 204	MC	1981	200/23	20,000	U.S. GOM	Shipyard
Hercules 205	MC	1979/2003	200/23	20,000	U.S. GOM	Contracted
Hercules 206	MC	1980/2003	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 207	MC	1981	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 208(d)	MC	1980/2008	200/22	20,000	Malaysia	Contracted
Hercules 211	MC	1980	200/23	18,000(e)	U.S. GOM	Cold Stacked
Hercules 250	MS	1974	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 251	MS	1978	250/24	20,000	U.S. GOM	Ready Stacked
Hercules 252	MS	1978	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 253	MS	1982	250/24	20,000	U.S. GOM	Contracted
Hercules 257	MS	1979	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 258	MS	1979/2008	250/24	20,000	India	Contracted
Hercules 260	ILC	1979/2008	250/12	20,000	India	Contracted
Hercules 261	ILC	1979/2008	250/12	20,000	Saudi Arabia	Contracted
Hercules 262	ILC	1982/2008	250/12	20,000	Saudi Arabia	Contracted
Hercules 350	ILC	1982	350/16	25,000	U.S. GOM	Contracted

(a) Rated drilling depth means drilling depth stated by the manufacturer of the rig. Depending on deck space and other factors, a rig may not have the actual capacity to drill at the rated drilling depth.

(b) Rigs designated as Contracted are under contract while rigs described as Ready Stacked are not under contract but generally are ready for service. Rigs described as Warm Stacked may have a reduced number of crew, but only require a full crew to be ready for service. Rigs described as Cold Stacked are not actively marketed, normally require the hiring of an entire crew and require a maintenance review and refurbishment before they can function as a drilling rig.

(c) Dates shown are the original date the rig was built and the date of the most recent upgrade and/or major refurbishment, if any.

(d) This rig is currently unable to operate in the U.S. Gulf of Mexico due to regulatory restrictions.

(e) Rated workover depth. *Hercules 211* is currently configured for workover activity, which includes maintenance and repair or modification of wells that have already been drilled and completed to enhance or resume the well s production.

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Other Drilling Rigs

A submersible rig is a mobile drilling platform that is towed to the well site where it is submerged by flooding its lower hull tanks until it rests on the sea floor, with the upper hull above the water surface. After completion of the drilling operation, the rig is refloated by pumping the water out of the lower hull, so that it can be towed to another location. Submersible rigs typically operate in water depths of 14 to 85 feet. Our three submersible rigs are upgradeable for deep gas drilling.

A platform drilling rig is placed on a production platform and is similar to a modular land rig. The production platform s crane is capable of lifting the modularized rig crane that subsequently sets the rig modules. The assembled rig has all the drilling, housing and support facilities necessary for drilling multiple production wells. Most platform drilling rig contracts are for multiple wells and extended periods of time on the same platform. Once work has been completed on a particular platform, the rig can be redeployed to another platform for further work. We have one platform drilling rig.

In the following table, Sub means a submersible rig and Plat means a platform drilling rig. The following table contains information regarding our other drilling rig fleet as of February 16, 2011.

Rig Name	Type	Year Built/ Upgraded(c)	Maximum/ Minimum Water Depth Rating (Feet)	Rated Drilling Depth(a) (Feet)	Location	Status(b)
Hercules 75	Sub	1983	85/14	25,000	U.S. GOM	Cold Stacked
Hercules 77	Sub	1982/2007	85/14	30,000	U.S. GOM	Cold Stacked
Hercules 78	Sub	1985/2007	85/14	30,000	U.S. GOM	Cold Stacked
Platform 3	Plat	1993	N/A	25,000	Mexico	Contracted

(a) Rated drilling depth means drilling depth stated by the manufacturer of the rig. Depending on deck space and other factors, a rig may not have the actual capacity to drill at the rated drilling depth.

(b) Rigs described as Cold Stacked are not actively marketed, normally require the hiring of an entire crew and require a maintenance review and refurbishment before they can function as a drilling rig while rigs described as Contracted are under contract.

(c) Dates shown are the original date the rig was built and the date of the most recent upgrade and/or major refurbishment, if any.

Barge Drilling Rigs

Barge drilling rigs are mobile drilling platforms that are submersible and are built to work in seven to 20 feet of water. They are towed by tugboats to the drill site with the derrick lying down. The lower hull is then submerged by flooding compartments until it rests on the river or sea floor. The derrick is then raised and drilling operations are conducted with the barge resting on the bottom. Our barge drilling fleet consists of 17 conventional and posted barge rigs. A

posted barge is identical to a conventional barge except that the hull and superstructure are separated by 10 to 14 foot columns, which increases the water depth capabilities of the rig. Several of our barge drilling rigs are upgradeable for deep gas drilling.

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The following table contains information regarding our barge drilling rig fleet as of February 16, 2011.

Rig Name	Type	Year Built/ Upgraded(c)	Horsepower Rating	Rated Drilling Depth(a) (Feet)	Location	Status(b)
1	Conv.	1980	2,000	20,000	U.S. GOM	Cold Stacked
9	Posted	1981	2,000	25,000	U.S. GOM	Cold Stacked
11	Conv.	1982	3,000	30,000	U.S. GOM	Cold Stacked
15	Conv.	1981	2,000	25,000	U.S. GOM	Cold Stacked
17	Posted	1981	3,000	30,000	U.S. GOM	Ready Stacked
19	Conv.	1974	1,000	14,000	U.S. GOM	Cold Stacked
27	Posted	1979/2008	3,000	30,000	U.S. GOM	Cold Stacked
28	Conv.	1980	3,000	30,000	U.S. GOM	Cold Stacked
29	Conv.	1981	3,000	30,000	U.S. GOM	Cold Stacked
41	Posted	1981	3,000	30,000	U.S. GOM	Contracted
46	Posted	1979	3,000	30,000	U.S. GOM	Cold Stacked
48	Posted	1982	3,000	30,000	U.S. GOM	Cold Stacked
49	Posted	1980	3,000	30,000	U.S. GOM	Contracted
52	Posted	1981	2,000	25,000	U.S. GOM	Cold Stacked
55	Posted	1981	3,000	30,000	U.S. GOM	Cold Stacked
57	Posted	1975	2,000	25,000	U.S. GOM	Cold Stacked
64	Posted	1979	3,000	30,000	U.S. GOM	Cold Stacked

(a) Rated drilling depth means drilling depth stated by the manufacturer of the rig. Depending on deck space and other factors, a rig may not have the actual capacity to drill at the rated drilling depth.

(b) Rigs designated as Contracted are under contract. Rigs described as Ready Stacked are not under contract but generally are ready for service. Rigs described as Cold Stacked are not actively marketed, normally require the hiring of an entire crew and require a maintenance review and refurbishment before they can function as a drilling rig.

(c) Dates shown are the original date the rig was built and the date of the most recent upgrade and/or major refurbishment, if any.

Liftboats

Unlike larger and more costly alternatives, such as jackup rigs or construction barges, our liftboats are self-propelled and can quickly reposition at a worksite or move to another location without third-party assistance. Once a liftboat is in position, typically adjacent to an offshore production platform or well, third-party service providers perform:

production platform construction, inspection, maintenance and removal;

well intervention and workover;

well plug and abandonment; and

pipeline installation and maintenance.

Our liftboats are ideal working platforms to support platform and pipeline inspection and maintenance tasks because of their ability to maneuver efficiently and support multiple activities at different working heights. Diving operations may also be performed from our liftboats in connection with underwater inspections and repair. In addition, our liftboats provide an effective platform from which to perform well-servicing activities such as mechanical wireline, electrical wireline and coiled tubing operations. Technological advances, such as coiled tubing, allow more well-servicing procedures to be conducted from liftboats. Moreover, during both platform construction and removal, smaller platform components can be installed and

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removed more efficiently and at a lower cost using a liftboat crane and liftboat-based personnel than with a specialized construction barge or jackup rig.

The length of the legs is the principal measure of capability for a liftboat, as it determines the maximum water depth in which the liftboat can operate. Our liftboats in the U.S. Gulf of Mexico range in leg lengths up to 229 feet, which allows us to service approximately 83% of the approximately 3,500 existing production platforms in the U.S. Gulf of Mexico. Liftboats are typically moved to a port during severe weather to avoid the winds and waves they would be exposed to in open water.

As of February 16, 2011, we owned 41 liftboats operating in the U.S. Gulf of Mexico, 17 liftboats operating in West Africa, and two liftboats operating in the Middle East. In addition, we operated five liftboats owned by a third party in West Africa. The following table contains information regarding the liftboats we operate as of February 16, 2011.

Liftboat Name(1)	Year Built/ Upgraded(5)	Leg	Deck	Maximum	Gross