HERCULES OFFSHORE, INC.
Form 10-Q
October 31, 2008

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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 September 30, 2008

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 **(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)**	**77046** **(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 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 þ Accelerated filer o 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 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 October 24, 2008
	87,958,177

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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)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 106,177	$ 212,452
Marketable Securities		39,300
Accounts Receivable, Net	340,275	221,663
Insurance Claims Receivable	1,088	43,342
Supplies	2,493	2,494
Prepaids	51,871	31,417
Current Deferred Tax Asset	20,052	18,960
Other	18,423	23,565
	540,379	593,193
Property and Equipment, Net	2,434,772	2,060,224
Goodwill	941,318	940,241
Other Assets, Net	44,657	50,290
	$ 3,961,126	$ 3,643,948
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term Debt and Current Portion of Long-term Debt	$ 19,941	$ 21,653
Insurance Note Payable	25,771	16,931
Accounts Payable	111,174	105,527
Accrued Liabilities	91,057	80,138
Taxes Payable	18,934	23,006
Other Current Liabilities	38,980	20,870
	305,857	268,125
Long-term Debt, Net of Current Portion	1,135,512	890,013
Other Liabilities	27,076	15,493
Deferred Income Taxes	455,486	458,884
Commitments and Contingencies		
Stockholders Equity:		
Common Stock, $0.01 Par Value; 200,000 Shares Authorized; 89,434 and 88,876 Shares Issued, Respectively; 87,958 and 88,857 Shares Outstanding, Respectively	894	889
Capital in Excess of Par Value	1,752,850	1,731,882
Treasury Stock, at Cost, 1,476 Shares and 19 Shares, Respectively	(50,034)	(582)

Accumulated Other Comprehensive Loss	(7,763)	(8,117)
Retained Earnings	341,248	287,361
	2,037,195	2,011,433
	$ 3,961,126	$ 3,643,948

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 September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$ 315,738	$ 272,573	$ 798,338	$ 482,081
Costs and Expenses:				
Operating Expenses	180,978	129,444	470,138	215,367
Depreciation and Amortization	50,256	37,507	141,150	61,446
General and Administrative	17,447	18,018	57,777	36,516
	248,681	184,969	669,065	313,329
Operating Income	67,057	87,604	129,273	168,752
Other Income (Expense):				
Interest Expense	(14,852)	(15,164)	(45,387)	(18,633)
Loss on Early Retirement of Debt		(1,312)		(2,182)
Other, Net	543	2,507	2,818	5,028
Income Before Income Taxes	52,748	73,635	86,704	152,965
Income Tax Provision	(19,622)	(27,283)	(32,051)	(49,756)
Income from Continuing Operations	33,126	46,352	54,653	103,209
Income (Loss) from Discontinued Operation, Net of Taxes	(168)	2,019	(766)	2,019
Net Income	$ 32,958	$ 48,371	$ 53,887	$ 105,228
Basic Earnings Per Share:				
Income from Continuing Operations	$ 0.38	$ 0.56	$ 0.62	$ 2.11
Income (Loss) from Discontinued Operation	(0.01)	0.03	(0.01)	0.04
Net Income	$ 0.37	$ 0.59	$ 0.61	$ 2.15
Diluted Earnings Per Share:				
Income from Continuing Operations	$ 0.37	$ 0.56	$ 0.61	$ 2.08
Income (Loss) from Discontinued Operation		0.02	(0.01)	0.04
Net Income	$ 0.37	$ 0.58	$ 0.60	$ 2.12
Weighted Average Shares Outstanding:				
Basic	87,950	82,663	88,478	48,912
Diluted	88,508	83,418	89,180	49,568

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)

	Nine Months Ended September 30,	
	2008	**2007**
Cash Flows from Operating Activities:		
Net Income	$ 53,887	$ 105,228
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	141,168	63,520
Stock-based Compensation Expense	10,382	6,157
Deferred Income Taxes	12,302	25,986
Amortization of Deferred Financing Fees	2,882	1,046
Gain on Disposal of Assets	(3,649)	(1,641)
Excess Tax Benefit from Stock-based Arrangements	(5,469)	(2,057)
Loss on Early Retirement of Debt		2,182
(Increase) Decrease in Operating Assets -		
Accounts Receivable	(119,529)	15,169
Insurance Claims Receivable	(369)	(9,026)
Tax Sharing Agreement Payment	(4,000)	(118,247)
Prepaid Expenses and Other	30,221	2,869
Increase (Decrease) in Operating Liabilities -		
Accounts Payable	6,124	(11,253)
Insurance Note Payable	(30,528)	(12,052)
Other Current Liabilities	21,246	5,492
Other Liabilities	17,924	834
Net Cash Provided by Operating Activities	132,592	74,207
Cash Flows from Investing Activities:		
Acquisition of Business, Net of Cash Acquired		(733,763)
Acquisition of Assets	(320,839)	
Additions of Property and Equipment	(184,843)	(97,521)
Deferred Drydocking Expenditures	(13,547)	(14,680)
Investment in Marketable Securities		(128,525)
Proceeds from Sale of Marketable Securities	39,300	108,675
Insurance Proceeds Received	29,229	3,850
Proceeds from Sale of Assets, Net	14,584	2,211
Decrease in Restricted Cash		229
Net Cash Used in Investing Activities	(436,116)	(859,524)
Cash Flows from Financing Activities:		
Short-term Debt Borrowings (Repayments), Net	686	(465)
Long-term Debt Borrowings	350,000	900,000
Long-term Debt Repayments	(106,720)	(93,250)
Common Stock Repurchases	(49,228)	
Proceeds from Exercise of Stock Options	5,127	2,054

Excess Tax Benefit from Stock-based Arrangements		5,469		2,057
Payment of Debt Issuance Costs		(8,085)		(17,753)
Other				(46)
Net Cash Provided by Financing Activities		197,249		792,597
Net Increase (Decrease) in Cash and Cash Equivalents		(106,275)		7,280
Cash and Cash Equivalents at Beginning of Period		212,452		72,772
Cash and Cash Equivalents at End of Period	$	106,177	$	80,052

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Net Income	$ 32,958	$ 48,371	$ 53,887	$ 105,228
Other Comprehensive Income (Loss), Net of Taxes:				
Changes related to Hedge Transactions	2,028	(4,744)	354	(5,171)
Comprehensive Income	$ 34,986	$ 43,627	$ 54,241	$ 100,057

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. provides shallow-water drilling and marine services to the oil and gas exploration and production industry in the U.S. Gulf of Mexico and international locations through its Domestic Offshore, International Offshore, Inland, Domestic Liftboats, International Liftboats and Delta Towing segments (See Note 11). At September 30, 2008, the Company owned a fleet of 35 jackup rigs, 27 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. The Company currently operates in ten countries on four continents.

On July 11, 2007, the Company completed the acquisition of TODCO (See Note 3), a provider of contract oil and gas drilling services in the U.S. Gulf of Mexico and international locations. TODCO owned and operated 24 jackup rigs, 27 barge rigs, three submersible rigs, nine land rigs, one platform rig and a fleet of marine support vessels. During the fourth quarter of 2007, the Company sold the nine land rigs and related assets (See Note 4). In February 2008, the Company entered into a definitive agreement to purchase three jackup drilling rigs and related equipment for $320.0 million. The Company completed the purchase of the *Hercules 350* and the *Hercules 261* and related equipment during March 2008, while the purchase of the *Hercules 262* and related equipment was completed in May 2008.

The consolidated financial statements of Hercules Offshore, Inc. and its majority owned subsidiaries (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 September 30, 2008, Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2008 and 2007, and Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007. 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, 2007 and the notes thereto included in the Company s Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2008 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, goodwill, property, plant 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.

Reclassifications

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

Revenue Recognition

Revenues generated from our contracts are recognized as services are performed. 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 one month 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 September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Mobilization revenue deferred	$ 11,050	$	$ 19,327	$
Mobilization expense deferred			3,398	
Mobilization revenue recognized	3,111	298	9,287	2,763
Mobilization expense recognized	1,595	641	4,551	2,223

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

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 Company records reimbursements from customers for out-of-pocket expenses as revenues and the related cost as direct operating expenses. Total revenues from such reimbursements were $3.8 million and $5.2 million for the three months ended September 30, 2008 and 2007, respectively. Total revenues from such reimbursements were $10.6 million and $10.7 million for the nine months ended September 30, 2008 and 2007, respectively.

Other Assets

Other assets consist of drydocking costs for marine vessels, other intangible assets, deferred costs, financing fees, derivative assets, investments, deposits and other. Drydock 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 September 30, 2008 and December 31, 2007 were $7.1 million and $8.2 million, respectively. Amortization expense for drydocking costs was $4.9 million and $4.6 million for the three months ended September 30, 2008 and 2007, respectively, and $14.7 million and $13.1 million for the nine months ended September 30, 2008 and 2007, respectively.

Financing fees are deferred and amortized over the life of the applicable debt instrument. Unamortized deferred financing fees at September 30, 2008 and December 31, 2007 were $21.4 million and $16.2 million, respectively. The amortization expense related to the deferred financing fees is included in interest expense on the Consolidated Statements of Operations. Amortization expense for financing fees was $1.2 million and $0.8 million for the three months ended September 30, 2008 and 2007, respectively, and $2.9 million and $1.0 million for the nine months ended September 30, 2008 and 2007, respectively.

Other Intangible Assets

In connection with the acquisition of TODCO (See Note 3), the Company allocated $17.6 million in value to certain international customer contracts. These amounts are being amortized over the life of the contracts. As of September 30, 2008, the customer contracts had a carrying value of $8.8 million, net of accumulated amortization of $8.8 million, and are included in Other Assets, Net on the Consolidated Balance Sheets.

Amortization expense was $1.9 million and $1.1 million for the three months ended September 30, 2008 and 2007, respectively, and $6.1 million and $1.1 million for the nine months ended September 30, 2008 and 2007, respectively. Future estimated amortization expense for the carrying amount of intangible assets as of September 30, 2008 is expected to be as follows (in thousands):

Remainder of 2008	$1,536
2009	4,781
2010	1,814
2011	658
2012	

Cash and Cash Equivalents and Marketable Securities

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. From time to time the Company may invest a portion of its available cash in marketable securities. Marketable securities are classified as available for sale and are stated at fair value on the Consolidated Balance Sheets. At September 30, 2008, the Company had no investments in marketable securities.

Realized and unrealized gains and losses related to marketable securities are calculated using the specific identification method. Unrealized gains or losses, net of taxes, are included in Accumulated Other Comprehensive Loss on the Consolidated Balance Sheets until realized. Realized gains or losses are included in Other, Net in the Consolidated Statements of Operations. Proceeds of $39.3 million were received from sales and maturities of marketable securities for the nine months ended September 30, 2008. There were no realized or unrealized gains or losses related to these securities in the three months ended September 30, 2008 and 2007, and the nine months ended

September 30, 2008 and 2007.

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

2. Earnings Per Share

The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per share is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Denominator:				
Weighted average basic shares	87,950	82,663	88,478	48,912
Add effect of stock equivalents	558	755	702	656
Weighted average diluted shares	88,508	83,418	89,180	49,568

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. Stock equivalents of 1,233,207 and 772,901 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 nine months ended September 30, 2008, respectively. Stock equivalents of 583,977 and 204,603 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 nine months ended September 30, 2007, respectively.

3. Asset Acquisition and Business Combination

In February 2008, the Company entered into a definitive agreement to purchase three jackup drilling rigs and related equipment for $320.0 million. The Company completed the purchase of the *Hercules 350* and the *Hercules 261* and related equipment during March 2008, while the purchase of the *Hercules 262* and related equipment was completed in May 2008.

On July 11, 2007, the Company acquired TODCO for total consideration of approximately $2,397.8 million, consisting of $925.8 million in cash and 56.6 million shares of common stock. The fair value of the shares issued was determined for accounting purposes using an average price of $25.99, which represented the average closing price of the Company s stock for a period before and after the date of the merger agreement with TODCO. In addition, the Company incurred additional consideration in the amount of $41.6 million related primarily to transaction related costs, cash payments to non-continuing employees and the conversion of certain employee equity awards. The results of TODCO are included in the Company s results from the date of acquisition.

The total consideration was allocated to TODCO s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the purchase price over the net assets was recorded as goodwill.

4. Dispositions

During the second quarter of 2008, the Company sold *Hercules 256* for gross proceeds of $8.5 million, which approximated the carrying value of this asset.

During the fourth quarter of 2007, the Company sold the nine land rigs and related assets purchased in the TODCO acquisition for gross proceeds of $107.0 million, which approximated the carrying value of these assets. In addition, during 2007, the Company sold several marine support vessels purchased in the TODCO acquisition for gross proceeds of $3.2 million, which approximated the carrying value of the vessels.

5. Discontinued Operation

As presented in Note 4, the Company sold its nine land rigs and related equipment in the fourth quarter of 2007. The results of operations of the land rig operations are reflected in the Consolidated Statements of Operations as a discontinued operation for all periods presented.

Interest charges have been allocated to the discontinued operation in accordance with Emerging Issues Task Force (EITF) Issue No. 87-24, *Allocation of Interest to Discontinued Operations*. The interest was allocated based on a pro rata calculation of the net assets of the discontinued operation to the Company s consolidated net assets. Interest allocated to the discontinued operation was $0.6 million for the three and nine months ended September 30, 2007.

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

Operating results and wind down costs of the land rigs were as follows (in thousands):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues	$ 86	$ 21,792	$ 1,702	$ 21,792
Income (Loss) Before Income Taxes	$ (259)	$ 4,663	$ (1,179)	$ 4,663
Income Tax (Provision) Benefit	91	(2,644)	413	(2,644)
Income (Loss) from Discontinued Operation, Net of Taxes	$ (168)	$ 2,019	$ (766)	$ 2,019

6. Debt

Debt is comprised of the following (in thousands):

	September 30, 2008	December 31, 2007
Term Loan Facility, due July 2013	$ 891,000	$ 895,500
3.375% Convertible Senior Notes due June 2038	250,000	
9.5% Senior Notes, due December 2008	10,255	10,432
7.375% Senior Notes, due April 2018	3,512	3,513
6.95% Senior Notes, due April 2008		2,221
Foreign Overdraft Facility	686	
Total Debt	1,155,453	911,666
Less Short-term Debt and Current Portion of Long-term Debt	19,941	21,653
Total Long-term Debt, Net of Current Portion	$ 1,135,512	$ 890,013

Senior secured credit agreement

In connection with the July 2007 acquisition of TODCO (See Note 3), the Company entered into a new $1,050.0 million credit facility, consisting of a $900.0 million term loan facility and a $150.0 million revolving credit facility. The proceeds from the term loan were used, together with cash on hand, to finance the cash portion of the Company s acquisition of TODCO, to repay amounts under TODCO s senior secured credit facility outstanding at the closing of the facility and to make certain other payments in connection with the Company s acquisition of TODCO. In connection with the credit facility, the Company entered into derivative instruments with the purpose of hedging future interest payments (See Note 7).

On April 28, 2008, the Company and certain of its subsidiaries entered into an agreement with the revolving lenders under its existing credit facility and certain new lenders to increase the maximum amount of the Company s revolving credit facility from $150.0 million to $250.0 million. The increased availability under the facility is to be used for working capital, capital expenditures and other general corporate purposes. The facility includes a diverse group of lenders with no single commitment greater than $30.0 million.

No amounts were outstanding and $27.0 million in standby letters of credit had been issued under the revolving credit facility as of September 30, 2008. The remaining availability under this revolving credit facility was

$223.0 million at September 30, 2008.

As of September 30, 2008, $891.0 million was outstanding on the term loan facility and the interest rate was 4.55%. The annualized effective rate of interest was 6.04% for the nine months ended September 30, 2008 after giving consideration to derivative activities.

The credit agreement contains financial covenants that are tested quarterly relating to leverage and fixed charge coverage. 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, liens, investments and affiliate transactions. The credit agreement contains customary events of default, including a fixed charge coverage ratio and a total leverage ratio. The Company was in compliance with these covenants at September 30, 2008.

Senior notes and other debt

On June 3, 2008, the Company completed an offering of $250.0 million convertible senior notes at a coupon rate of 3.375% (3.375% Convertible Senior Notes) with a maturity in June 2038. The interest on the notes is payable in cash semi-annually in arrears, on June 1 and December 1 of each year until June 1, 2013, after which the principal will accrete at an annual yield to maturity of 3.375% per year. The Company will also pay contingent interest during any six-month interest period commencing June 1, 2013,

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

for which the trading price of these notes for a specified period of time equals or exceeds 120% of their accreted principal amount. The notes will be convertible under certain circumstances into shares of the Company s common stock at an initial conversion rate of 19.9695 shares of common stock per $1,000 principal amount of notes, which is equal to an initial conversion price of approximately $50.08 per share. Upon conversion of a note, a holder will receive, at the Company s election, shares of common stock, cash or a combination of cash and shares of common stock. The Company may redeem the notes at its option beginning June 6, 2013, and holders of the notes will have the right to require the Company to repurchase the notes on certain dates or on the occurrence of a fundamental change. Net proceeds of $243.5 million were used to purchase approximately 1.45 million shares, or $49.2 million, of the Company s common stock, to repay outstanding borrowings under its senior secured revolving credit facility which totaled $100.0 million at the time of the offering and for other general corporate purposes. The fair market value of the 3.375% Convertible Senior Notes was $180.0 million at September 30, 2008.

The Company determined it has the intent and ability to settle the principal amount of its 3.375% Convertible Senior Notes in cash, and any additional conversion consideration spread (the excess of conversion value over face value) in shares of the Company s common stock.

In connection with the TODCO acquisition in July 2007, the Company assumed senior notes and an unsecured line of credit with a bank in Venezuela. The senior notes included 6.95% Senior Notes due in April 2008, 7.375% Senior Notes due in April 2018, and 9.5% Senior Notes due in December 2008 (collectively, Senior Notes). The 6.95% Senior Notes were repaid in April 2008. The fair market value of the 7.375% Senior Notes and 9.5% Senior Notes at September 30, 2008 was approximately $3.5 million and $10.2 million, respectively, based on the most recent market valuations. In July 2008, the line of credit was changed to an overdraft facility and the maximum amount available to be drawn was increased to 9.0 million Bolivares Fuertes from 6.0 million Bolivares Fuertes. The overdraft facility is designed to manage local currency liquidity in Venezuela. The maximum amount available to be drawn at September 30, 2008 was 9.0 million Bolivares Fuertes ($4.2 million at the exchange rate at September 30, 2008), and there were 1.5 million Bolivares Fuertes ($0.7 million at the exchange rate at September 30, 2008) outstanding at September 30, 2008.

7. Derivative Instruments and Hedging

The Company periodically uses derivative instruments to manage its exposure to interest rate risk,