HERCULES OFFSHORE, INC.
Form 10-K
March 02, 2015
Table of Contents

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, 2014
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 (Address of principal executive offices)	77046 (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

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 ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ 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 ¨
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 þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. þ
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 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 Act). Yes ¨ No þ

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2014, based on the closing price on the NASDAQ Global Select Market on such date, was approximately $632 million. As of such date, the registrant's directors and executive officers were considered affiliates of the registrant for this purpose.

As of February 23, 2015, there were 161,051,313 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 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

Table of Contents

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	26
Item 3.	Legal Proceedings	26
Item 4.	Mine Safety Disclosures	27
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	29
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
	Forward-Looking Statements	54
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	55
Item 8.	Financial Statements and Supplementary Data	56
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	93
Item 9A.	Controls and Procedures	93
Item 9B.	Other Information	93
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	94
Item 11.	Executive Compensation	94
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	94
Item 13.	Certain Relationships and Related Transactions, and Director Independence	94
Item 14.	Principal Accountant Fees and Services	94
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	94

Table of Contents

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

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 February 19, 2015, we operated a fleet of 33 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.

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 (HSHE) 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 $244 million remains to be spent at December 31, 2014. 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 with a second 10% payment due one year after the initial payment and the final 80% of the shipyard payment due upon delivery of the rig, which is expected to be in April 2016.

Drilling Contract Termination

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 are in the process of seeking a basis for continuing the Hercules 261 contract. There will be no termination fee payable to us under the contract as a result of such termination.

Asset Dispositions and Impairment

During 2014, we sold six rigs, Hercules 258, Hercules 250, Hercules 2002, Hercules 2003, Hercules 2500 and Hercules 156, for gross proceeds of $33.1 million and recorded a net gain on the sales of $22.6 million for the year ended December 31, 2014.

We made the decision to remove nine rigs, Hercules 120, Hercules 200, Hercules 202, Hercules 204, Hercules 212, Hercules 213, Hercules 214, Hercules 251 and Hercules 253, from our marketable assets into our non-marketable assets as we do not reasonably expect to market these rigs in the foreseeable future. This decision resulted in a non-cash asset impairment charge of $199.5 million ($199.5 million, net of tax), which is included in Asset Impairment on the Consolidated Statement of Operations for the year ended December 31, 2014, to write the rigs down to fair value based on a third-party estimate. The financial information for these rigs has been reported as part of the Domestic Offshore segment.

Our Segments and Fleet

As of February 19, 2015, our business segments were Domestic Offshore, International Offshore, and International Liftboats, which included 24 jackup rigs, nine jackup rigs (including one jackup rig under construction) and 24 liftboats (including five liftboats owned by a third party), respectively. Additionally in our International Offshore segment, we have 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"). In August 2014, Perisai Pacific 101 commenced work on a three-year drilling contract in Malaysia and Perisai Pacific 102 is expected to be delivered in the second quarter of 2015.

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. Dayrate drilling contracts typically provide for higher rates

Table of Contents

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, oil, rental equipment 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.

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 position themselves more quickly on the worksite and more easily move on and off location than independent leg rigs. Twenty-two of our jackup rigs are mat-supported and eleven are independent leg rigs.

Thirty 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. Three 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.

As of February 19, 2015, eleven of our jackup rigs were under contract ranging in duration from well-to-well to five years. 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.

Table of Contents

The following table contains information regarding our jackup rig fleet as of February 19, 2015.

Rig Name	Type	Year Built/ Upgraded (a)	Maximum/ Minimum Water Depth Rating (Feet)	Rated Drilling Depth (b) (Feet)	Location	Status(c)
Hercules 85	ILS	1982	85/9	20,000	U.S. GOM	Cold Stacked
Hercules 120	MC	1958/1985	120/22	15,000	U.S. GOM	Contracted
Hercules 150	ILC	1979	150/10	20,000	U.S. GOM	Warm Stacked
Hercules 153	MC	1980/2007	150/22	25,000	U.S. GOM	Cold Stacked
Hercules 173	MC	1971	173/22	15,000	U.S. GOM	Contracted
Hercules 200	MC	1979	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 201	MC	1981	200/23	20,000	U.S. GOM	Warm Stacked
Hercules 202	MC	1981	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 203	MC	1982	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 204	MC	1981	200/23	20,000	U.S. GOM	Cold Stacked
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	India	Ready Stacked
Hercules 209	MC	1981/2013	200/23	20,000	U.S. GOM	Warm Stacked
Hercules 211	MC	1980	200/23	18,000 (e)	U.S. GOM	Cold Stacked
Hercules 212	MC	1982	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 213	MC	1981/2002	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 214	MC	1982	200/23	20,000	U.S. GOM	Cold Stacked
Hercules 251	MS	1978	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 253	MS	1982	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 260	ILC	1979/2008	150/12	20,000	Gabon	Shipyard
Hercules 261	ILC	1979/2008	250/15	20,000	Saudi Arabia	Contracted (f)
Hercules 262	ILC	1982/2008	250/15	20,000	Saudi Arabia	Contracted
Hercules 263	MC	1982/2002	250/23	20,000	U.S. GOM	Contracted
Hercules 264	MC	1976/1998	250/23	25,000	U.S. GOM	Ready Stacked
Hercules 266	ILC	1978/2013	250/15	20,000	Saudi Arabia	Contracted
Hercules 267	ILC	1980/2006	250/15	20,000	Ivory Coast	Contracted
Hercules 300	MC	1974/2000	300/25	20,000	U.S. GOM	Contracted
Hercules 350	ILC	1982	350/16	25,000	U.S. GOM	Contracted
Hercules Resilience	ILC	2013	400/25	35,000	Gabon	Ready Stacked
Hercules Triumph	ILC	2013	400/25	35,000	Rotterdam	Shipyard
Hercules Highlander	ILC	(g)	400/30	30,000	Singapore	Contracted

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

(b) Rated drilling depth generally 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.

(c) 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" are actively marketed and may have a reduced number of crew, but only require a full crew to be ready for Service, while 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. Rigs described as “Shipyard” are undergoing maintenance,

repairs or upgrades and may or may not be actively marketed depending on the length of stay in the shipyard.

(d) This rig is currently unable to operate in the U.S. Gulf of Mexico due to United States Department of Transportation Maritime Administration ("MARAD") restrictions.

Table of Contents

(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.

(f) 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 are in the process of seeking a basis for continuing the Hercules 261 contract.

(g) Rig is currently under construction with an expected delivery of April 2016.

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 providing 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 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. Liftboats are typically moved to a port during severe weather to avoid the winds and waves they would be exposed to in open water.

Table of Contents

As of February 19, 2015, we owned 16 liftboats operating in West Africa and three 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 operated as of February 19, 2015.

Liftboat Name (1)	Year Built/ Upgraded (2)	Leg Length (6)	Deck Area Total	Maximum Deck Load	Location	Gross Registered Tonnage
		(Feet)	(Square feet)	(Pounds)		
Bull Ray	2008	280	11,000	1,000,000	Cameroon	2,559
Whale Shark (7)	2005/2009	260	8,170	1,010,150	U.A.E.	1,142
Tiger Shark (7)	2001	227	5,300	1,237,000	Nigeria	1,403
Kingfish	1996/2012	229	5,000	689,920	U.A.E	1,312
Blue Shark	1981	219	3,800	400,000	Nigeria	1,182
Amberjack (7)	1981	205	3,800	600,000	U.A.E.	417
Creole Fish (4)	2001	200	5,000	798,000	Nigeria	192
Cutlassfish (4)	2006	197	5,000	507,582	Nigeria	194
Black Jack	1997/2008	200	4,000	358,400	Nigeria	777
Oilfish (7)	1996	170	3,200	400,000	Nigeria	465
F. J. Leleux (5)	1981	150	2,600	200,000	Nigeria	407
Black Marlin	1984	150	2,600	200,000	Nigeria	407
Pilot Fish	1990	145	2,400	175,000	Nigeria	310
Rudderfish	1991	145	3,000	175,000	Nigeria	310
Scamp	1984	130	2,400	150,000	Nigeria	280
Charlie Cobb (5)	1980	120	2,000	100,000	Nigeria	210
Durwood Speed (5)	1979	120	2,000	100,000	Nigeria	210
James T. Choat (5)	1980	120	2,000	100,000	Nigeria	210
Solefish	1978	120	2,000	100,000	Nigeria	229
Tigerfish	1980	120	2,000	100,000	Nigeria	210
Zoal Albrecht (5)	1982	120	2,000	100,000	Nigeria	210
Bonefish (3)	1978	105	1,009	110,000	Nigeria	97
Gemfish	1978	105	2,000	100,000	Nigeria	223
Tapertail	1979	105	1,392	110,000	Nigeria	100

(1) Names as printed on Flag registry document. All vessels are Panama Flag unless otherwise noted.

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

(3) The Bonefish is currently cold stacked. All other liftboats are either available or operating.

(4) U.S. flagged vessels. Gross registered tonnage under U.S. tonnage scheme for application of International Regulations.

(5) Nigerian flagged vessels. Operated exclusively by Hercules for third party owner.

(6) Leg Length measured from bottom of pad to top of the end cap.

(7) Maximum deck load applicable at limited water depths.

Table of Contents

Competition

The shallow-water businesses in which we operate are highly competitive. Domestic drilling contracts are traditionally short term in nature, although we have recently been awarded longer term domestic drilling contracts. International drilling and liftboat contracts are longer term in nature. The contracts are typically awarded on a competitive bid basis. Pricing is often the primary factor in determining which qualified contractor is awarded a job, although technical capability of service and equipment, unit availability, unit location, safety record and crew quality may also be considered. Certain of our competitors in the shallow-water business may have greater financial and other resources than we have. As a result, these competitors may have a better ability to withstand periods of low utilization, compete more effectively on the basis of price, build new rigs, acquire existing rigs, and make technological improvements to existing equipment or replace equipment that becomes obsolete. Competition for offshore rigs is usually on a global basis, as drilling rigs are highly mobile and may be moved, at a cost that is sometimes substantial, from one region to another in response to demand. However, our mat-supported jackup rigs are less capable than independent leg jackup rigs of managing variable sea floor conditions found in most areas outside the Gulf of Mexico. As a result, our ability to move our mat-supported jackup rigs to certain regions in response to changes in market conditions is limited. Additionally, a number of our competitors have independent leg jackup rigs with generally higher specifications and capabilities than the independent leg rigs that we currently operate. Particularly during market downturns when there is decreased rig demand, higher specification rigs may be more likely to obtain contracts than lower specification rigs.

Customers

Our customers primarily include major integrated energy companies, independent oil and natural gas operators and national oil companies. Sales to customers exceeding 10 percent or more of our total revenue from continuing operations in any of the past three years are as follows:

	Year Ended December 31,		
	2014	2013	2012
Chevron Corporation (a)	15 %	15 %	16 %
EPL Oil & Gas (b)	14	10	5
Saudi Aramco (c)	12	12	7
Cairn Energy (c)	11	2	—

(a) Revenue included in our Domestic Offshore, International Offshore and International Liftboats segments.
(b) Revenue included in our Domestic Offshore segment.
(c) Revenue included in our International Offshore segment.

Contracts

Our contracts to provide services are individually negotiated and vary in their terms and provisions. Currently, all of our drilling contracts are on a dayrate basis. Dayrate drilling contracts typically provide for payment on a dayrate basis, with 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.

A dayrate drilling contract generally extends over a period of time covering the drilling of a single well or group of wells or covering a stated term. These contracts typically can be terminated by the customer under various circumstances such as the loss or destruction of the drilling unit or the suspension of drilling operations for a specified period of time as a result of a breakdown of major equipment or due to events beyond the control of either party. In addition, customers in some instances have the right to terminate our contracts with little or no prior notice, and without penalty or early termination payments. The contract term in some instances may be extended by the customers exercising options for the drilling of additional wells or for an additional term, or by exercising a right of first refusal. To date, most of our contracts in the U.S. Gulf of Mexico have been on a short-term basis of less than six months. Our contracts in international locations have historically been longer-term, with contract terms of up to five years. For contracts over six months in term we may have the right to pass through certain cost escalations. Our customers may have the right to terminate, or may seek to renegotiate, existing contracts if we experience downtime or operational

problems above a contractual limit, if the rig is a total loss, or in other specified circumstances. A customer is more likely to seek to cancel or renegotiate its contract during periods of depressed market conditions. We could be required to pay penalties if some of our contracts with our customers are canceled due to downtime or operational problems. Suspension of drilling contracts results in the reduction in or loss of dayrates for the period of the suspension.

Table of Contents

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, oil, rental equipment and other items. Liftboat contracts generally are for shorter terms than are drilling contracts.

On larger contracts, particularly outside the United States, we may be required to arrange for the issuance of a variety of bank guarantees, performance bonds or letters of credit. The issuance of such guarantees may be a condition of the bidding process imposed by our customers for work outside the United States. The customer would have the right to call on the guarantee, bond or letter of credit in the event we default in the performance of the services. The guarantees, bonds and letters of credit would typically expire after we complete the services.

Contract Backlog

We calculate our 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 dayrates 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. The following table reflects the amount of our contract backlog for our executed contracts, including the Maersk contract for the newbuild jackup rig, Hercules Highlander, by year as of February 19, 2015:

	For the Years Ending December 31,				
	Total	2015	2016	2017	Thereafter
	(in thousands)				
Domestic Offshore	$64,773	$64,773	$—	$—	$—
International Offshore (a)	656,039	78,754	77,688	125,271	374,326
International Liftboats	1,176	1,176	—	—	—
Total	$721,988	$144,703	$77,688	$125,271	$374,326

(a) Contract backlog as of February 19, 2015 for our International Offshore segment excludes $38.1 million, $49.9 million, $49.8 million and $86.9 million for the years 2015, 2016, 2017 and thereafter, respectively, attributable to the Hercules 261 contract cancellation. We are in the process of seeking a basis for continuing the Hercules 261 contract. See previous discussion under Overview.

Employees

As of December 31, 2014, we had approximately 1,800 employees. We require skilled personnel to operate and provide technical services and support for our rigs, barges and liftboats. As a result, we conduct extensive personnel training and safety programs.

Certain of our employees in West Africa are working under collective bargaining agreements. Additionally, efforts have been made from time to time to unionize portions of the offshore workforce in the U.S. Gulf of Mexico. We believe that our employee relations are good.

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

Table of Contents

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, 2014, 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, 2015. We paid $42.9 million in the second quarter of 2014 for our insurance renewals.

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	Coverage Amounts and Deductibles
- Total maximum amount of hull and machinery coverage;	- $1.6 billion;
- Deductible for events that are not caused by a U.S. Gulf of Mexico named windstorm;	- $5.0 million and $1.0 million per occurrence for drilling rigs and liftboats, respectively;
- Deductible for events that are caused by a U.S. Gulf of Mexico named windstorm;	- $25.0 million;
- Maritime employer liability (crew liability);	- $5.0 million self-insured retention with excess liability coverage up to $200.0 million;
- Personal injury and death of third parties;	- Primary and excess coverage of $25.0 million per occurrence with additional excess liability coverage up to $200.0 million, subject to a $250,000 per occurrence deductible;
- Limitations for coverage for losses caused in U.S. Gulf of Mexico named windstorms; and	- Annual aggregate limit of liability of $75.0 million for property damage and liability coverage, including removal of wreck liability coverage; and
- Vessel pollution emanating from our vessels and drilling rigs.	- Primary limits of $5.0 million up to $17.1 million per occurrence and excess liability coverage up to $200.0 million.

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. The policies are subject to exclusions, limitations, deductibles, self-insured retention and other conditions, including the requirement for Company gross negligence or willful misconduct.

Table of Contents

Hercules Triumph and Hercules Resilience Marine Package Coverage

We have separate primary marine packages for Hercules Triumph and Hercules Resilience that each 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 and excess 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. We received gross insurance proceeds of $50.0 million, the rig's insured value, in December 2013 from insurance underwriters and recorded a net insurance gain of $31.6 million after writing off the rig's net book value of $18.4 million. The cause of the incident is unknown but is under investigation. We also have removal of wreck coverage 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 to date and used $2.0 million to repurchase the Hercules 265 hull from the insurance underwriters. 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.

Insurance Claims Settlement

In September 2011, we were conducting a required annual spud can inspection on Hercules 185 in protected waters offshore Angola. While conducting the inspection, it was determined that the spud can on the starboard leg had detached from the leg. Subsequently, additional leg damage was identified. The rig underwent repairs related to this damage and was mobilized back to Angola. During the return mobilization from the U.S. Gulf of Mexico to Angola, Hercules 185 experienced additional damage to its legs. We conducted a survey of the rig's legs above and below the water line and discovered extensive damage to various portions of the rig's legs. In June 2012, we determined that it was unfeasible to repair the damage and return the rig to service and recorded a non-cash impairment charge to write the rig down to salvage value. We and our insurance underwriters reached a global settlement in September 2012, agreeing that Hercules 185 should be considered a constructive total loss. From this settlement, we received total insurance proceeds of $41.0 million for the rig, including $7.5 million received in June 2012 for its earlier claim relating to previous leg damage to the rig. These proceeds generated a gain on insurance settlement of $27.3 million which is included in Operating Expenses on the Consolidated Statements of Operations for the year ended December 31, 2012. In the fourth quarter 2013, we sold the Hercules 185 for $0.6 million. Pursuant to our settlement with the

underwriters, the full proceeds from this sale were transferred to underwriters after closing.

Regulation

Our operations are affected in varying degrees by federal, state, local and foreign and/or international governmental laws and regulations regarding the discharge of materials into the environment or otherwise relating to environmental protection. Our industry is dependent on demand for services from the oil and natural gas industry and, accordingly, is also affected by changing tax and other laws relating to the energy business generally. In the United States, we are subject to the jurisdiction of the Environmental Protection Agency ("EPA"), U.S. Coast Guard (“Coast Guard”), the National Transportation Safety Board ("NTSB"), the U.S. Customs and Border Protection (“CBP”), the Department of Interior, the Bureau of Ocean Energy

Table of Contents

Management (“BOEM”) and the Bureau of Safety and Environmental Enforcement (“BSEE”), as well as classification societies such as the American Bureau of Shipping ("ABS"). The Coast Guard and the NTSB set safety standards and are authorized to investigate vessel accidents and recommend improved safety standards, and the CBP is authorized to inspect vessels at will. Coast Guard regulations also require annual inspections and periodic drydock inspections or special examinations of our vessels.

In the aftermath of the Macondo well blowout incident in April 2010, BSEE and BOEM 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.

The shorelines and shallow-water areas of the U.S. Gulf of Mexico are ecologically sensitive. Heightened environmental concerns in these areas have led to higher drilling costs and a more difficult and lengthy well permitting process and, in general, have adversely affected drilling decisions of oil and natural gas companies. In the United States, our operations are subject to federal and state laws and regulations that require us to obtain and maintain specified permits or governmental approvals; control the discharge of materials into the environment; remove and cleanup materials that may harm the environment; or otherwise comply with the protection of the environment. For example, as an operator of mobile offshore units in navigable U.S. waters including the OCS, and some offshore areas, we may be liable for damages and costs incurred in connection with oil spills or other unauthorized discharges of chemicals or wastes resulting from or related to those operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions restricting some or all of our activities in the affected areas. Laws and regulations protecting the environment have become more stringent over time and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Some of these laws and regulations may expose us to liability for the conduct of or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed. The application of these legal requirements or the adoption of new or more stringent legal requirements could have a material adverse effect on our financial condition and results of operations.

The U.S. Federal Water Pollution Control Act of 1972, as amended, commonly referred to as the Clean Water Act, prohibits the discharge of pollutants into the navigable waters of the United States without a permit. The regulations implementing the Clean Water Act require permits to be obtained by an operator before specified discharge activities occur. Offshore facilities must also prepare plans addressing spill prevention, control and countermeasures. In place of the former Clean Water Act exemption, the EPA adopted a Vessel General Permit, effective December 19, 2008, that required subject vessel operators, including us, to obtain a Vessel General Permit for all of our covered vessels by February 6, 2009. We have obtained the necessary Vessel General Permit for all of our vessels to which this permitting program applies and have prepared Spill Prevention Control and Countermeasure Plans where appropriate. In addition to the EPA’s issuance of the Vessel General Permit, some states are, and other states are considering, regulating ballast water discharges. Violations of monitoring, reporting and permitting requirements associated with applicable ballast water discharge permitting programs or other regulatory initiatives may result in the imposition of civil and criminal penalties. Moreover, we have incurred added costs to comply with legal requirements under the Vessel General Permit and may continue to incur further costs as other legal requirements under federal and state ballast water discharge permit programs are adopted and implemented, but we do not believe that such compliance efforts will have a material adverse effect on our results of operations or financial position.

The U.S. Oil Pollution Act of 1990 (“OPA”), as amended, and related regulations impose a variety of requirements on “responsible parties” related to the prevention and/or reporting of oil spills and liability for damages resulting from such spills in waters off the U.S. A “responsible party” includes the owner or operator of an onshore facility, pipeline or

vessel or the lessee or permittee of the area in which an offshore facility is located. OPA assigns liability to each responsible party for oil removal costs and a variety of public and private damages. Under OPA, as amended by the Coast Guard and Maritime Transportation Act of 2006, “tank vessels” are subject to certain specified liability limits. Few defenses exist to the liability imposed by OPA and the liability could be substantial. Moreover, a party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of a federal safety, construction or operating regulation. If the party fails to report a spill or to cooperate fully in the cleanup, the liability limits likewise do not apply and certain defenses may not be available. In addition, OPA imposes on responsible parties the need for proof of financial responsibility to cover at least some costs in a potential spill. As required, we have provided satisfactory evidence of financial responsibility to the Coast Guard for all of our vessels subject to such requirements.

Table of Contents

The U.S. Outer Continental Shelf Lands Act, as amended, authorizes regulations relating to safety and environmental protection applicable to lessees and permittees operating on the OCS. Included among these are regulations that require the preparation of spill contingency plans and establish air quality standards for certain pollutants, including particulate matter, volatile organic compounds, sulfur dioxide, carbon monoxide and nitrogen oxides. Specific design and operational standards may apply to OCS vessels, rigs, platforms, vehicles and structures. Violations of lease conditions or regulations related to the environment issued pursuant to the Outer Continental Shelf Lands Act can result in substantial civil and criminal penalties, as well as potential court injunctions curtailing operations and canceling leases. Such enforcement liabilities can result from either governmental or citizen prosecution.

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act, as amended, also known as CERCLA or the "Superfund" law, imposes liability without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of a facility where a release occurred, the owner or operator of a vessel from which there is a release, and entities that disposed or arranged for the disposal of the hazardous substances found at a particular site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the cost of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources. Prior owners and operators are also subject to liability under CERCLA. It is also not uncommon for third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We generate wastes in the course of our routine operations that may be classified as hazardous substances.

The U.S. Resource Conservation and Recovery Act, as amended, regulates the generation, transportation, storage, treatment and disposal of onshore hazardous and non-hazardous wastes and requires states to develop programs to ensure the safe disposal of wastes. We generate nonhazardous wastes and small quantities of hazardous wastes in connection with routine operations. We believe that all of the wastes that we generate are handled in compliance in all material respects with the Resource Conservation and Recovery Act and analogous state laws.

In recent years, a variety of initiatives intended to enhance vessel security were adopted to address terrorism risks, including the Coast Guard regulations implementing the Maritime Transportation and Security Act of 2002. These regulations required, among other things, the development of vessel security plans and on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications. We believe that our vessels are in substantial compliance with all vessel security regulations.

The United States is one of approximately 170 member countries to the International Maritime Organization ("IMO"), a specialized agency of the United Nations that is responsible for developing measures to improve the safety and security of international shipping and to prevent marine pollution from ships. Among the various international conventions negotiated by the IMO is the International Convention for the Prevention of Pollution from Ships ("MARPOL"). MARPOL imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions.

Annex VI to MARPOL sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts, prohibits deliberate emissions of ozone depleting substances and includes measures aimed at reducing greenhouse gases. Annex VI entered into force on May 19, 2005, and applies to all ships, fixed and floating drilling rigs and other floating platforms. Annex VI also imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with more stringent controls on sulfur emissions. For vessels 400 gross tons and greater, platforms and drilling rigs, Annex VI imposes various survey and certification requirements. For this purpose, gross tonnage is based on the International Tonnage Certificate for the vessel, which may vary from the standard U.S. gross tonnage for the vessel reflected in our liftboat table previously. Annex VI came into force in the United States on January 8, 2009. Moreover, on July 1, 2010, amendments to Annex VI to the MARPOL Convention took effect requiring the imposition of progressively stricter limitations on sulfur emissions from ships. As a result, limitations imposed on sulfur emissions will require that fuels of vessels in covered Emission Control Areas ("ECAs") contain no more than 1% sulfur. In August 2012, the North American ECA became enforceable. The North American ECA includes areas subject to the exclusive sovereignty of the United States and extends up to 200 nautical miles from the

coasts of the United States, which area includes parts of the U.S. Gulf of Mexico. Consequently, beginning on January 1, 2012, limits on marine fuel used to power ships in non-ECA areas were capped at 3.5% sulfur and, in August 2012, when the North American ECA became effective, the sulfur limit in marine fuel was capped at 1%, which is the capped amount for all other ECA areas since July 1, 2010. These capped amounts will then decrease progressively until they reach 0.5% by January 1, 2020 for non-ECA areas and 0.1% by January 1, 2015 for ECA areas, including the North American ECA. The amendments also establish new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. Our operation of vessels in international waters, outside of the North American ECA, are subject to the requirements of Annex VI in those countries that have implemented its provisions. We believe the rigs we currently offer for international projects are generally exempt from the more costly compliance requirements of Annex VI and the liftboats we currently offer for international projects are generally exempt from or otherwise substantially comply with those requirements.

Table of Contents

Accordingly, we do not anticipate that compliance with MARPOL or Annex VI to MARPOL, whether within the North American ECA or beyond, will have a material adverse effect on our results of operations or financial position.

Greenhouse gas emissions have increasingly become the subject of international, national, regional, state and local attention. Cap and trade initiatives to limit greenhouse gas emissions have been introduced in the European Union. Similarly, numerous bills related to climate change have been introduced in the U.S. Congress, which could adversely impact most industries. In addition, future regulation of greenhouse gas could occur pursuant to future treaty obligations, statutory or regulatory changes or new climate change legislation in the jurisdictions in which we operate. It is uncertain whether any of these initiatives will be implemented. Restrictions on greenhouse gas emissions or other related legislative or regulatory enactments could have an effect in those industries that use significant amounts of petroleum products, which could potentially result in a reduction in demand for petroleum products and, consequently and indirectly, our offshore support services. We are currently unable to predict the manner or extent of any such effect. Furthermore, one of the asserted long-term physical effects of climate change may be an increase in the severity and frequency of adverse weather conditions, such as hurricanes, which may increase our insurance costs or risk retention, limit insurance availability or reduce the areas in which, or the number of days during which, our customers would contract for our vessels in general and in the U.S. Gulf of Mexico in particular. We are currently unable to predict the manner or extent of any such effect.

Our non-U.S. operations are subject to other laws and regulations in countries in which we operate, including laws and regulations relating to the importation of and operation of rigs and liftboats, currency conversions and repatriation, oil and natural gas exploration and development, environmental protection, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of rigs, liftboats and other equipment. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and natural gas companies and may continue to do so. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

Although significant capital expenditures may be required to comply with these governmental laws and regulations, such compliance has not materially adversely affected our earnings or competitive position. We believe that we are currently in compliance in all material respects with the environmental regulations to which we are subject.

Available Information

General information about us, including our corporate governance policies, can be found on our Internet website at www.herculesoffshore.com. On our website we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file or furnish them to the SEC. These filings also are available at the SEC's Internet website at www.sec.gov. Information contained on our website is not part of this annual report.

Segment and Geographic Information

Information with respect to revenue, operating income and total assets attributable to our segments and revenue and long-lived assets by geographic areas of operations is presented in Note 13 of our Notes to Consolidated Financial Statements included in Item 8 of this annual report. Additional information about our segments is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this annual report.

Table of Contents

Item 1A. Risk Factors

Our business depends on the level of activity in the oil and natural gas industry, which is significantly affected by volatile oil and natural gas prices.

Our business depends on the level of activity of oil and natural gas exploration, development and production in the U.S. Gulf of Mexico and internationally, and in particular, the level of exploration, development and production expenditures of our customers. Demand for our drilling services is adversely affected by declines associated with depressed oil and natural gas prices. Even the perceived risk of a decline in oil or natural gas prices often causes oil and gas companies to reduce spending on exploration, development and production. However, higher prices do not necessarily translate into increased drilling activity since our clients' expectations about future commodity prices typically drive demand for our services. Reductions in capital expenditures of our customers reduce rig utilization and dayrates. Oil and natural gas prices are extremely volatile and are affected by numerous factors, including the following:

- the demand for oil and natural gas in the United States and elsewhere;
- the supply of oil and natural gas in the United States and elsewhere;
- the cost of exploring for, developing, producing and delivering oil and natural gas, and the relative cost of onshore production or importation of natural gas;
- political, economic and weather conditions in the United States and elsewhere;
- advances in drilling, exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries, commonly called "OPEC," to set and maintain oil production levels and pricing;
- the level of production in non-OPEC countries;
- domestic and international tax policies and governmental regulations;
- the development and exploitation of alternative fuels, and the competitive, social and political position of natural gas as a source of energy compared with other energy sources;
- the policies of various governments regarding exploration and development of their oil and natural gas reserves;
- the worldwide military and political environment and 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; and
- acts of terrorism or piracy that affect oil and natural gas producing regions, especially in Nigeria and the Middle East, where armed conflict, civil unrest and acts of terrorism are increasingly common occurrences.

Reduced demand for drilling and liftboat services could materially erode dayrates and utilization rates for our units, which could adversely affect our financial condition and results of operations. Continued hostilities in the Middle East, North Africa, West Africa, Asia and Eastern Europe, and the occurrence or threat of terrorist attacks against the United States or other countries could negatively impact the economies of the United States and other countries where we operate. A decline in the United States or global economy could result in a decrease in energy consumption and commodity prices, which in turn would cause our revenue and margins to decline and limit our future growth prospects.

The offshore service industry is highly cyclical and experiences periods of low demand and low dayrates. The volatility of the industry has in the past resulted and could again result in sharp declines in our profitability.

Historically, the offshore service industry has been highly cyclical, with periods of high demand and high dayrates often followed by periods of low demand and low dayrates. Periods of low demand or increasing supply intensify the competition in the industry and often result in rigs or liftboats being idle for long periods of time. As a result of the cyclicality of our industry, we expect our results of operations to be volatile and to decrease during market declines such as we are currently experiencing.

Maintaining idle assets or the sale of assets below their then carrying value may cause us to experience losses and may result in impairment charges.

Prolonged periods of low utilization and dayrates, the cold stacking of idle assets or the sale of assets below their then carrying value may cause us to experience losses. These events may also result in the recognition of impairment

charges on certain of our assets if future cash flow estimates, based upon information available to management at the time, indicate that their carrying value may not be recoverable or if we sell assets at below their then carrying value.

Table of Contents

We have a significant level of debt, and could incur additional debt in the future. Our debt could have significant consequences for our business and future prospects.

As of December 31, 2014, we had total outstanding debt of approximately $1.2 billion. This debt represented approximately 66% of our total book capitalization. As of December 31, 2014, we had $142.6 million of available capacity under our revolving credit facility, after the commitment of $7.4 million for letters of credit issued under it. We may borrow under our revolving credit facility to fund working capital or other needs in the near term up to the remaining availability, subject to our compliance with financial covenants. Our debt and the limitations imposed on us by our existing or future debt agreements could have significant consequences for our business and future prospects, including the following:

- we may not be able to obtain necessary financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes and we may be required under the terms of our existing credit facility or notes to use the proceeds of any financing we obtain to repay or prepay existing debt;
- we will be required to dedicate a substantial portion of our cash flow to payments of interest on our debt;
- we may be exposed to risks inherent in interest rate fluctuations on borrowings under our credit facility which could result in higher interest expense to the extent that we do not hedge such risk in the event of increases in interest rates;
- we could be more vulnerable during downturns in our business and be less able to take advantage of significant business opportunities and to react to changes in our business and in market or industry conditions; and
- we may have a competitive disadvantage relative to our competitors that have less debt.

Our ability to make payments on and to refinance our indebtedness, including the 10.25% Senior Notes due 2019, the 8.75% Senior Notes due 2021, the 3.375% Convertible Senior Notes due 2038, the 7.5% Senior Notes due 2021 and the 6.75% Senior Notes due 2022, and to fund planned capital expenditures will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our future cash flows may be insufficient to meet all of our debt obligations and other commitments, and any insufficiency could negatively impact our business. To the extent we are unable to make scheduled interest payments or repay our indebtedness as it becomes due or at maturity with cash on hand, we will need to refinance our debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments.

If we are unable to comply with the financial covenant in our revolving credit facility, there could be a default, which could result in an acceleration of repayment of funds that we have borrowed.

Our revolving credit facility includes a financial covenant that will be tested if there are any revolving borrowings under the credit facility or letters of credit issued under the credit facility exceeding $10.0 million. If we trigger the conditions requiring testing, our ability to comply with this financial covenant can be affected by events beyond our control. Reduced activity levels in the oil and natural gas industry, such as we are currently experiencing, could adversely impact our ability to comply with such covenant in the future. Our failure to comply with such covenant would result in an event of default under the revolving credit facility. An event of default could prevent us from borrowing under our revolving credit facility, which could in turn have a material adverse effect on our available liquidity. In addition, an event of default could result in our having to immediately repay all amounts outstanding under the revolving credit facility, the 10.25% Senior Notes due 2019, the 8.75% Senior Notes due 2021, the 3.375% Convertible Senior Notes due 2038, the 7.5% Senior Notes due 2021 and the 6.75% Senior Notes due 2022 and in foreclosure of liens on our assets. As of December 31, 2014, we were in compliance with all covenants under our debt facilities.

Our liquidity depends upon cash on hand, cash from operations and availability under our revolving credit facility.

Our liquidity depends upon cash on hand, cash from operations and availability under our $150.0 million revolving credit facility. The availability under the $150.0 million revolving credit facility is to be used for working capital, capital expenditures and other general corporate purposes. Except under certain conditions, the revolving credit facility requires interest-only payments on a quarterly basis until the maturity date. No amounts were outstanding under the revolving credit facility as of December 31, 2014, although $7.4 million in letters of credit had been issued under it. The remaining availability under the revolving credit facility is $142.6 million at December 31, 2014.

We currently maintain a shelf registration statement covering the future issuance from time to time of various types of securities, including debt and equity securities. Although we currently believe we have adequate liquidity to fund our operations, to the extent we do not generate sufficient cash from operations, we may need to raise additional funds through public or private debt or equity offerings to fund operations, and under the terms of our existing indebtedness, we may be required to use the proceeds of any capital that we raise to repay existing indebtedness. Furthermore, we may need to raise

Table of Contents

additional funds through public or private debt or equity offerings or asset sales to refinance our indebtedness, to fund capital expenditures or for general corporate purposes. There can be no guarantee that we will be able to access the capital markets when we need to or issue debt or equity on terms that are acceptable to us.

We are a holding company, and we are dependent upon cash flow from subsidiaries to meet our obligations.

We currently conduct our operations through, and most of our assets are owned by, both U.S. and foreign subsidiaries, and our operating income and cash flow are generated by our subsidiaries. As a result, cash we obtain from our subsidiaries is the principal source of funds necessary to meet our debt service obligations. Contractual provisions or laws, as well as our subsidiaries' financial condition and operating requirements, may limit our ability to obtain cash from our subsidiaries that we require to pay our debt service obligations. Applicable tax laws may also subject such payments to us by our subsidiaries to further taxation.

The inability to transfer cash from our subsidiaries may mean that, even though we may have sufficient resources on a consolidated basis to meet our obligations, we may not be permitted to make the necessary transfers from subsidiaries to the parent company in order to provide funds for the payment of the parent company's obligations.

Many of our customer contracts are short term, and our customers may seek to terminate, renegotiate or decline to renew contracts when market conditions decline, which could result in reduced profitability.

Currently, all of our drilling contracts with major customers are dayrate contracts, where we charge a fixed charge per day regardless of the number of days needed to drill the well. Likewise, under our current liftboat contracts, we charge a fixed fee per day regardless of the success of the operations that are being conducted by our customer utilizing our liftboat. In the U.S. Gulf of Mexico, contracts are generally short term, and oil and natural gas companies tend to reduce activity levels quickly in response to downward changes in oil and natural gas prices, such as we are currently experiencing. Due to the short-term nature of most of our contracts, a decline in market conditions such as we are currently experiencing can quickly affect our business if customers reduce their levels of operations. Also, during these periods of depressed market conditions, a customer may no longer need a rig or liftboat that is currently under contract or may be able to obtain a comparable rig or liftboat at a lower daily rate. As a result, customers may seek to renegotiate the terms of their existing contracts or avoid their obligations, including their payment obligations, under those contracts. In addition, our customers may have the right to terminate, or may seek to renegotiate, existing contracts if we experience downtime, operational problems above the contractual limit or safety-related issues, if the rig or liftboat is a total loss, if the rig or liftboat is not delivered to the customer within the period specified in the contract or in other specified circumstances, which include events beyond the control of either party.

Some of our contracts with our customers include terms allowing them to terminate the contracts without cause, with little or no prior notice and without penalty or early termination payments. In addition, we could be required to pay penalties if some of our contracts with our customers are terminated due to downtime, operational problems or failure to deliver. Some of our other contracts with customers may be cancelable at the option of the customer upon payment of a penalty, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in a rig or liftboat being idle for an extended period of time. The likelihood that a customer may seek to terminate a contract is increased during periods of market weakness such as we are currently experiencing. If our customers cancel or require us to renegotiate some of our significant contracts, if we are unable to secure new contracts on substantially similar terms, especially those contracts in our International Offshore segment, or if contracts are suspended for an extended period of time, our revenue and profitability would be materially reduced.

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 are in the process of seeking a basis for continuing the Hercules 261 contract.

We can provide no assurance that our current backlog of contract revenue and receivables will be ultimately realized.

As of February 19, 2015, our total contract drilling backlog for our Domestic Offshore, International Offshore and International Liftboats segments was approximately $0.7 billion for our executed contracts, excluding the backlog associated with the Hercules 261 contract, and including the Maersk contract for the newbuild jackup rig, Hercules Highlander. We calculate our 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. We may not be able to perform under our drilling contracts 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), and our customers may seek to cancel or renegotiate our contracts for various reasons. In some

Table of Contents

of the contracts, our customer has the right to terminate the contract without penalty and in certain instances, with little or no notice. In addition, we can provide no assurance that our customers will pay any or all of the revenues that we have earned from them for providing our drilling and liftboat services. Our inability or the inability of our customers to perform under our or their contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

A significant portion of our business is conducted in shallow-water areas of the U.S. Gulf of Mexico. The mature nature of this region could result in less drilling activity in the area, thereby reducing demand for our services.

The U.S. Gulf of Mexico, and in particular the shallow-water region of the U.S. Gulf of Mexico, is a mature oil and natural gas production region that has experienced substantial seismic survey and exploration activity for many years. Because a large number of oil and natural gas prospects in this region have already been drilled, additional prospects of sufficient size and quality could be more difficult to identify. In addition, the amount of natural gas production in the shallow-water U.S. Gulf of Mexico has declined over the last decade. Moreover, oil and natural gas companies may be unable to obtain financing necessary to drill prospects in this region. The decrease in the size of oil and natural gas prospects, the decrease in production or the failure to obtain such financing may result in reduced drilling activity in the U.S. Gulf of Mexico and reduced demand for our services.

Our industry is highly competitive, with intense price competition. Our inability to compete successfully may reduce our profitability.

Our industry is highly competitive. Our contracts are traditionally awarded on a competitive bid basis. Pricing is often the primary factor in determining which qualified contractor is awarded a job, although rig and liftboat availability, location and technical capability and each contractor’s safety performance record and reputation for quality also can be key factors in the determination. Dayrates also depend on the supply of rigs and vessels with excess capacity putting downward pressure on dayrates. Excess capacity can occur when newly constructed rigs and vessels enter service, when rigs and vessels are mobilized between geographic areas and when non-marketed rigs and vessels are reactivated.

Several of our competitors also are incorporated in jurisdictions outside the United States, which provides them with significant tax advantages that are not available to us as a U.S. company and, as a result, may materially impair our ability to compete with them for many projects that would be beneficial to us.

An increase in supply of rigs or liftboats could adversely affect our financial condition and results of operations.

New construction of rigs and liftboats, mobilization of rigs to regions in which we operate, or reactivation of non-marketed rigs and liftboats, could result in excess supply in the regions in which we operate, and our dayrates and utilization could be reduced.

Construction of rigs, including high specification rigs such as Hercules Highlander, Hercules Triumph and Hercules Resilience, could result in excess supply in international regions, which could reduce our ability to secure new contracts for our rigs and could reduce our ability to renew, extend or obtain new contracts for working rigs at the end of such contract term. The excess supply would also impact the dayrates on future contracts.

If market conditions improve, inactive rigs and liftboats that are not currently being marketed could be reactivated to meet an increase in demand. Improved market conditions in the U.S. Gulf of Mexico, particularly relative to other regions, could also lead to the movement of jackup rigs and other mobile offshore drilling units into the U.S. Gulf of Mexico. Improved market conditions in any region worldwide could lead to increased construction of rigs and liftboats and upgrade programs by our competitors. Some of our competitors have already announced plans to build additional jackup rigs with higher specifications than most of our fleet. Many of the rigs currently under construction have not been contracted for future work, which may intensify price competition as scheduled delivery dates occur. A significant increase in the supply of jackup rigs, other mobile offshore drilling units or liftboats could adversely affect both our utilization and dayrates.

We may require additional capital in the future, including to finance the final shipyard payment for the Hercules Highlander, which may not be available to us or may be at a cost which reduces our cash flow and profitability.

Our business is capital intensive and, to the extent we do not generate sufficient cash from operations, we may need to raise additional funds through public or private debt (which would increase our interest costs) or equity financings to execute our business strategy or to fund capital expenditures. Adequate sources of capital funding may not be

available when needed or may not be available on acceptable terms, including at the time we are required to pay the final shipyard installment for the Hercules Highlander. In addition, under the terms of our revolving credit facility, we may be required to use the proceeds of any capital that we raise to repay existing indebtedness. If we raise additional funds by issuing additional equity securities, existing stockholders may experience dilution. If funding is insufficient at any time in the future, we may be unable to fund the purchase of the Hercules Highlander, maintenance of our assets, take advantage of business opportunities or respond to competitive pressures, any of which could harm our business.

Table of Contents

Asset sales have been an important component of our business strategy. We may be unable to identify appropriate buyers with access to financing or to complete any sales on acceptable terms.

We are currently considering sales or other dispositions of certain of our assets, and any such disposition could be significant and could significantly affect the results of operations of one or more of our business segments. Asset sales may occur on less favorable terms than terms that might be available at other times in the business cycle. At any given time, discussions with one or more potential buyers may be at different stages. Any such discussions and agreements to sell assets may or may not result in the consummation of an asset sale. We may not be able to identify buyers with access to financing or complete sales on acceptable terms.

Our debt instruments impose significant additional costs and operating and financial restrictions on us, which may prevent us from capitalizing on business opportunities and taking certain actions.

Our debt instruments impose significant additional costs and operating and financial restrictions on us. These restrictions limit our ability to, among other things:

- incur additional indebtedness or issue certain preferred stock;
- pay dividends or make other distributions;
- make other restricted payments or investments;
- sell assets or use the proceeds from asset sales;
- create liens;
- enter into agreements that restrict dividends and other payments by restricted subsidiaries;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all of our assets.

Our compliance with these provisions may materially adversely affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, finance our acquisitions, equipment purchases and development expenditures, or withstand the present or any future downturn in our business.

Our international operations are subject to additional political, economic, and other uncertainties not generally associated with domestic operations.

An element of our business strategy is to continue to expand into international oil and natural gas producing areas such as West Africa, the Middle East, the Asia-Pacific region and the North Sea. We operate liftboats in West Africa, including Nigeria, and in the Middle East. We also operate drilling rigs in Saudi Arabia, West Africa, India and Southeast Asia. Our international operations are subject to a number of risks inherent in any business operating in foreign countries, including:

- political, social and economic instability, war and acts of terrorism;
- potential seizure, expropriation or nationalization of assets;
- damage to our equipment or violence directed at our employees, including kidnappings and piracy;
- increased operating costs;
- complications associated with repairing and replacing equipment in remote locations;
- delays and potential prolonged disruption of operations associated with obtaining visas for our employees and other local procedural requirements and administrative matters;
- repudiation, modification or renegotiation of contracts, disputes and legal proceedings in international jurisdictions;
- limitations on insurance coverage, such as war risk coverage in certain areas;
- import-export quotas;
- confiscatory taxation;
- work stoppages or strikes, particularly in Nigeria;
- unexpected changes in regulatory requirements;
- wage and price controls;

Table of Contents

- imposition of trade barriers;
- imposition or changes in enforcement of local content and cabotage laws, particularly in West Africa and Southeast Asia, where the legislatures are active in developing new legislation;
- restrictions on currency or capital repatriations;
- currency fluctuations and devaluations; and
- other forms of government regulation and economic conditions that are beyond our control.

Many governments favor or effectively require that liftboat or drilling contracts be awarded to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In certain countries, government rules and regulations also require that local citizens or entities be engaged as local representatives to support the operations of foreign contractors or to own a portion of the equity or assets of companies operating within their jurisdiction. These practices and legal requirements regarding the use of and potential company equity and asset ownership by local representatives might limit our business and operations, and occasions may arise when we have disagreements with our local representative, or the continuation of such relationship may become infeasible. Any such developments might disrupt our operations and continuity of our business in such jurisdictions. If we are unable to resolve issues with a local representative, we may decide to terminate the relationship with such local representative and seek another local representative or seek opportunities for our rigs and vessels elsewhere. Where local representative relationships require approval from the local government or other third parties we may be constrained in our ability to replace an existing local representative which may disrupt our operations and continuity of our business in such jurisdictions and require us to seek opportunities for our rigs and vessels elsewhere. In addition, if we experience delays or are unable to perform our obligations under our contracts, our customers may seek to cancel the contracts, which could adversely affect our financial condition, results of operations or cash flows.

Our non-U.S. contract drilling and liftboat operations are subject to various laws and regulations in countries in which we operate, including laws and regulations relating to the equipment and operation of drilling rigs and liftboats, currency conversions and repatriation, oil and natural gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, employees and suppliers by foreign contractors, the ownership of assets by local citizens and companies, and duties on the importation and exportation of units and other equipment. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and natural gas companies and may continue to do so. Operations in developing countries can be subject to legal systems which are not as predictable as those in more developed countries, which can lead to greater risk and uncertainty in legal matters and proceedings. Our ability to compete in international markets may be adversely affected by these foreign governmental regulations and/or policies that favor the awarding of contracts to contractors in which nationals of those foreign countries have substantial ownership interests or by regulations requiring foreign contractors to employ, transfer ownership of equipment to, or purchase supplies from citizens of a particular jurisdiction.

Due to our international operations, we may experience currency exchange losses when revenue is received and expenses are paid in nonconvertible currencies or when we do not hedge an exposure to a foreign currency. We may also incur losses as a result of our inability to collect revenue because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital.

More of our existing jackup rigs are at a relative disadvantage to higher specification rigs, which may be more likely to obtain contracts than lower specification jackup rigs such as ours.

Many of our competitors have jackup fleets with generally higher specification rigs than those in our jackup fleet other than our three ultra-high specification rigs, including one under construction. In our existing fleet, 22 of our 33 jackup rigs are mat-supported, which are generally limited to geographic areas with soft bottom conditions like much of the Gulf of Mexico. In addition, the majority of new rigs under construction are of higher specification than our existing fleet, other than our three ultra-high specification rigs, including one under construction. Most of these rigs under construction are currently without contracts, which may intensify price competition as scheduled delivery dates

occur. Particularly in periods in which there is decreased rig demand such as we are currently experiencing, higher specification rigs may be more likely to obtain contracts than lower specification jackup rigs such as ours. In the past, lower specification rigs typically have been stacked earlier in the cycle of decreased rig demand than higher specification rigs and have been reactivated later in the cycle, which may adversely impact our business. In addition, higher specification rigs may be more adaptable to different operating conditions and therefore have greater flexibility to move to areas of demand in response to changes in market conditions. Because a majority of our rigs were designed specifically for drilling in the shallow-water of the U.S. Gulf of Mexico, our ability to move them to other regions in response to changes in market conditions is limited.

Table of Contents

Furthermore, there is an increasing amount of exploration and production expenditures being concentrated in deepwater drilling programs and deeper formations, including deep natural gas prospects, requiring higher specification jackup rigs, semisubmersible drilling rigs or drillships. This trend is expected to continue and could result in a decline in demand for lower specification jackup rigs like ours, which could have an adverse impact on our financial condition and results of operations.

A small number of customers account for a significant portion of our revenue, and the loss of one or more of these customers could adversely affect our financial condition and results of operations.

In recent years there has been a significant consolidation in our customer base. Therefore, we derive a significant amount of our revenue from a few energy companies. Chevron Corporation, EPL Oil & Gas, Saudi Aramco and Cairn Energy accounted for 15%, 14%, 12% and 11%, respectively, of our revenue for the year ended December 31, 2014. Our financial condition and results of operations will be materially adversely affected if these customers interrupt or curtail their activities, terminate or re-negotiate their contracts with us, fail to renew their existing contracts, refuse to award new contracts to us and we are unable to enter into contracts with new customers at comparable dayrates, or fail to pay for the revenues that we have earned providing our drilling and liftboat services. The loss of any of these or any other significant customer could adversely affect our financial condition and results of operations.

Our business involves numerous operating hazards and exposure to extreme weather and climate risks, and our insurance may not be adequate to cover our losses.

Our operations are subject to the usual hazards inherent in the drilling and operation of oil and natural gas wells, such as blowouts, reservoir damage, loss of production, loss of well control, punchthroughs, craterings, fires and pollution, such as the well control incident experienced in July 2013 by our jackup drilling rig Hercules 265 in the U.S. Gulf of Mexico. The occurrence of these events could result in the suspension of drilling or production operations, claims by the operator, severe damage to or destruction of the property and equipment involved, injury or death to rig or liftboat personnel, and environmental damage. We may also be subject to personal injury and other claims of rig or liftboat personnel as a result of our drilling and liftboat operations. Operations also may be suspended because of machinery breakdowns, abnormal operating conditions, failure of subcontractors to perform or supply goods or services and personnel shortages.

In addition, our drilling and liftboat operations are subject to perils of marine operations, including capsizing, grounding, collision and loss or damage from severe weather. Tropical storms, hurricanes and other severe weather prevalent in the U.S. Gulf of Mexico could have a material adverse effect on our operations. In addition, damage to our rigs, liftboats, shorebases and corporate infrastructure caused by high winds, turbulent seas, or unstable sea bottom conditions could potentially cause us to curtail operations for significant periods of time until the damages can be repaired. In addition, we cold stack a number of rigs in certain locations offshore. This concentration of rigs in specific locations could expose us to increased liability from a catastrophic event and could cause an increase in our insurance costs.

Damage to the environment could result from our operations, particularly through oil spillage or extensive uncontrolled fires. We may also be subject to property, environmental and other damage claims by oil and natural gas companies and other businesses operating offshore and in coastal areas. Our insurance policies and contractual rights to indemnity may not adequately cover losses, and we may not have insurance coverage or rights to indemnity for all risks. Moreover, pollution and environmental risks generally are subject to significant deductibles and are not totally insurable. Risks from extreme weather and marine hazards may increase in the event of ongoing patterns of adverse changes in weather or climate.

Our insurance coverage has become more expensive, may become unavailable in the future and may be inadequate to cover our losses.

Our insurance coverage is subject to certain significant deductibles and levels of self-insurance, does not cover all types of losses and, in some situations, may not provide full coverage for losses or liabilities resulting from our operations. In addition, due to the losses sustained by us and the offshore drilling industry in recent years, we are likely to continue experiencing increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries, including for hurricane-related windstorm damage or loss and for pollution and blowout events. Insurance costs may increase in the event of ongoing patterns of adverse changes in

weather or climate.

Further, we may elect not to obtain or we may be unable to obtain windstorm coverage in the future, thus putting us at a greater risk of loss due to severe weather conditions and other hazards. If a significant accident or other event resulting in damage to our rigs or liftboats, including severe weather, equipment breakdowns, terrorist acts, piracy, war, civil disturbances, blowouts, pollution or environmental damage, occurs and is not fully covered by insurance or a recoverable indemnity from a customer, it could adversely affect our financial condition and results of operations. Moreover, we may not be able to maintain adequate insurance in the future at rates we consider reasonable or be able to obtain insurance against certain risks.

As a result of a number of catastrophic weather related and other events, insurance underwriters increased insurance premiums for many of the coverages historically maintained and issued general notices of cancellation and significant changes

Table of Contents

for a wide variety of insurance coverages. The oil and natural gas industry has suffered extensive damage from several hurricanes over the last decade. As a result, our insurance costs have increased significantly, our deductibles have increased and our coverage for named windstorm damage was restricted. Any additional severe storm activity in the energy producing areas of the U.S. Gulf of Mexico in the future could cause insurance underwriters to no longer insure U.S. Gulf of Mexico assets against weather-related damage. Further, due to the escalating costs for weather-related damage in the U.S. Gulf of Mexico, in the future we may elect to forgo purchasing such coverage. A number of our customers that produce oil and natural gas have previously maintained business interruption insurance for their production. This insurance is less available and may cease to be available in the future, which could adversely impact our customers' business prospects in the U.S. Gulf of Mexico and reduce demand for our services.

Our customers may be unable or unwilling to indemnify us.

Consistent with standard industry practice, our clients generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts, regardless of how the loss or damages may be caused. Typically, our customer agrees to indemnify us for these risks, even if we are grossly negligent. However, since the Macondo well blowout and resulting litigation, some of our customers have been reluctant to extend their indemnity obligations in instances where we are grossly negligent. These risks are those associated with the loss of control of a well, such as blowout or cratering, the cost to regain control or redrill the well and associated pollution. There can be no assurance, however, that these clients will necessarily be financially able to indemnify us against all these risks. Also, we may be effectively prevented from enforcing these indemnities because of the nature of our relationship with some of our larger clients. Additionally, from time to time we may not be able to obtain agreement from our customers to indemnify us for such damages and risks.

We may not be able to maintain compliance with the continued listing requirements of The NASDAQ Global Select Market.

Our common stock is listed on The NASDAQ Global Select Market. There are a number of continued listing requirements that we must satisfy in order to maintain our listing on The NASDAQ Global Select Market. If we fail to maintain compliance with all applicable continued listing requirements and NASDAQ determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, our ability to obtain financing and our ability to fund our operations.

One continued listing requirement is for us to maintain a minimum stock price of $1.00 per share. The historical per share price of our common stock has fluctuated significantly, and has closed below $1.00 every trading day since February 10, 2015. Failure to meet the $1.00 minimum stock price for the time periods specified by NASDAQ listing requirements could result in our being delisted or our having to take other actions, such as a reverse stock split, to increase the price of our common stock. A delisting of our common stock could negatively 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; and limiting our ability to issue additional securities in the future.

Any violation of the Foreign Corrupt Practices Act ("FCPA") or similar laws and regulations could result in significant expenses, divert management attention, and otherwise have a negative impact on us.

We are subject to the FCPA, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business, and the anti-bribery laws of other jurisdictions. On April 4, 2011, we received a subpoena from the Securities and Exchange Commission ("SEC") requesting that we produce documents relating to our compliance with the FCPA. We were also advised by the Department of Justice ("DOJ") on April 5, 2011, that it was conducting a similar investigation. Under the direction of the audit committee, we conducted an internal investigation regarding these matters. On April 24, 2012 and August 7, 2012, we received letters notifying us that the DOJ and SEC, respectively, had completed their investigations and did not intend to pursue enforcement action against us. Despite the favorable termination of these investigations, we remain subject to the FCPA and similar laws and regulations, and any determination that we have violated the FCPA or laws of any other jurisdiction could have a material adverse effect on our financial condition.

Our international operations may subject us to political and regulatory risks and uncertainties.

In connection with our international contracts, the transportation of rigs, services and technology across international borders subjects us to extensive trade laws and regulations. Our import and export activities are governed by unique

customs laws and regulations in each of the countries where we operate. In each jurisdiction, laws and regulations concerning importation, recordkeeping and reporting, import and export control and financial or economic sanctions are complex and constantly changing. Our business and financial condition may be materially affected by enactment, amendment, enforcement or changing interpretations of these laws and regulations. Rigs and other shipments can be delayed and denied import or export for a variety of reasons, some of which are outside our control and some of which may result in failure to comply with existing laws and regulations and contractual requirements. Shipping delays or denials could cause operational downtime or increased costs, duties, taxes and fees. Any failure to comply with applicable legal and regulatory obligations also could result in criminal

Table of Contents

and civil penalties and sanctions, such as fines, imprisonment, debarment from government contracts, seizure of goods and loss of import and export privileges.

Public health threats could have a material adverse effect on our operations and our financial results.

Public health threats, such as the Ebola virus, and other highly communicable diseases, outbreaks of which have occurred in various parts of the world near where we operate, could adversely impact our operations, the operations of our customers and the global economy, including the worldwide demand for oil and natural gas and the level of demand for our services. Any quarantine of personnel, restrictions on travel to or from countries in which we operate, or inability to access our offices, rigs or liftboats could adversely affect our operations. Travel restrictions, operational problems or large-scale social unrest in any part of the world in which we operate, or any reduction in the demand for drilling or liftboat services caused by public health threats in the future, may materially impact operations and adversely affect our financial results.

We cannot guarantee the timely completion and delivery of our newbuild rig that is being constructed at JSL and that is currently scheduled for delivery in April 2016.

We may be materially adversely affected if our newbuild rig, Hercules Highlander, to support the drilling contract for Maersk Oil North Sea UK Limited (the "Maersk Drilling Contract") is not constructed or delivered on time in accordance with the agreed specifications. Delayed delivery beyond December 31, 2016 will, unless the delay is for certain reasons permitted under the Maersk Drilling Contract (including certain instances of force majeure), give Maersk the right to terminate the Maersk Drilling Contract.

Our rights under the construction contract may not protect us against the losses which may result if JSL is not able to deliver Hercules Highlander in accordance with the requirements of the construction contract and the Maersk Drilling Contract. We cannot give any assurance in respect of the yard's ability to complete the construction of Hercules Highlander as contractually agreed. In the event of such a failure or delay, we may not be able to generate any income from the Maersk Drilling Contract, which might lead to deferred or lost revenue, which is likely to have a material adverse effect on our results of operations, cash flows and financial position. We could lose the Maersk Drilling Contract and/or receive potential liability claims from the customer as a result of such delays.

We may need to make changes to Hercules Highlander after delivery which could result in additional construction costs and additional capital needs for us in the future.

We cannot guarantee that Hercules Highlander will be completed or pass the acceptance tests.

Acceptance tests will be performed in connection with the delivery of Hercules Highlander. The construction of Hercules Highlander was agreed to be based on an enhanced JSL JU-2000E design, and in accordance with detailed specifications and the rules and regulations of the classification society, the American Bureau of Shipping, as well as the relevant laws, regulations and rules of the intended flag state, Liberia, and of the countries in which Hercules Highlander is expected to operate. Such compliance will be pre-tested prior to departure from the shipyard in Singapore in order to reduce the risk for not meeting the performance specifications set out in the construction contract. Hercules Highlander will not be delivered from the yard until it is in compliance with the performance specifications, which could cause delivery to be delayed.

Acquisitions and integrating such acquisitions create certain risk and may affect our operating results.

We have completed acquisitions and will consider pursuing acquisitions (including the acquisition of individual rigs and liftboats and our acquisitions of Seahawk in 2011 and Discovery Offshore S.A. in 2013) in order to continue to grow and increase profitability. However, acquisitions involve numerous risks and uncertainties, including intense competition for suitable acquisition targets, the potential unavailability of financial resources necessary to consummate acquisitions, difficulties in identifying suitable acquisition targets or in completing any transactions identified on sufficiently favorable terms.

In addition to the risks involved in identifying and completing acquisitions described above, even when acquisitions are completed, integration of acquired entities and assets can involve significant difficulties, such as:

- failure to achieve cost savings or other financial or operating objectives with respect to an acquisition;
- uncertainties and delays relating to upgrades and refurbishments of newly-acquired rigs and liftboats;
- inability to obtain contracts or perform under contracts due to various operational factors, including unscheduled repairs, maintenance, operational delays, health, safety and environmental incidents, weather events and our new

customers seeking to cancel or renegotiate our contracts for various reasons;
- strain on the operational and managerial controls of our business;
- managing geographically separated organization, systems and facilities;

Table of Contents

- difficulties in the integration and retention of customers or personnel and the integration and effective deployment of operations or technologies;
- assumption of unknown material liabilities or regulatory non-compliance issues;
- possible adverse short-term effects on our cash flows or operating results; and
- diversion of management's attention from the ongoing operations of our business.

Failure to manage these acquisition risks could have a material adverse effect on our results of operations, financial condition and cash flows. There can be no assurance that we will be able to consummate any acquisitions or expansions, successfully integrate acquired entities or assets, or generate positive cash flow at any acquired company or expansion project.

We may consider future acquisitions and may be unable to complete and finance future acquisitions on acceptable terms. In addition, we may fail to successfully integrate acquired assets or businesses we acquire or incorrectly predict operating results.

We may consider future acquisitions which could involve the payment by us of a substantial amount of cash, the incurrence of a substantial amount of debt or the issuance of a substantial amount of equity. In addition, we may not be able to obtain, on terms we find acceptable, sufficient financing or funding that may be required to fund any such acquisition or investment and related capital expenditures.

We cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of our common stock.

Any future acquisitions could present a number of risks, including:

- the risk of incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets;
- the risk of failing to integrate the operations or management of any acquired operations or assets successfully and timely; and
- the risk of diversion of management’s attention from existing operations or other priorities.

If we are unsuccessful in integrating our acquisitions in a timely and cost-effective manner, our financial condition and results of operations could be adversely affected.

Failure to retain or attract skilled workers could hurt our operations.

We require skilled personnel to operate and provide technical services and support for our rigs and liftboats. Shortages of qualified personnel or the inability to obtain and retain qualified personnel could negatively affect the quality and timeliness of our work. In periods of economic crisis or during a recession, we may have difficulty attracting and retaining our skilled workers as these workers may seek employment in less cyclical or volatile industries or employers. In periods of recovery or increasing activity, we may have to increase the wages of our skilled workers, which could negatively impact our operations and financial results.

Although our domestic employees are not covered by a collective bargaining agreement, the marine services industry has been targeted by maritime labor unions in an effort to organize U.S. Gulf of Mexico employees. A significant increase in the wages paid by competing employers or the unionization of our U.S. Gulf of Mexico employees could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If either of these events were to occur, our capacity and profitability could be diminished and our growth potential could be impaired.

Governmental laws and regulations, including those arising out of the Macondo well incident and those related to climate change and emissions of greenhouse gases, may add to our costs or limit drilling activity.

Our operations are affected in varying degrees by governmental laws and regulations. We are also subject to the jurisdiction of the Coast Guard, the National Transportation Safety Board, the Customs and Border Protection, the Department of Interior, the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement ("BSEE"), as well as private industry organizations such as the American Bureau of Shipping. New laws, regulations and requirements imposed after the Macondo well incident may delay our operations and cause us to incur additional expenses in order for our rigs and operations in the U.S. Gulf of Mexico to be compliant with these new laws, regulations and requirements. These new laws, regulations and requirements and other potential changes in laws and regulations applicable to the offshore drilling industry in the U.S. Gulf of Mexico may also prevent our customers from obtaining new drilling permits and approvals in a timely manner, if at all, which could materially

adversely impact our business, financial position or results of operations. In addition, we may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated.

Table of Contents

For example, the BSEE has extended its regulatory enforcement reach to include contractors, which exposes contractors to potential fines, sanctions and penalties for violations of law arising in the BSEE's jurisdictional area. Similarly, our international operations are subject to compliance with the FCPA, certain international conventions and the laws, regulations and standards of other foreign countries in which we operate. It is also possible that existing and proposed governmental conventions, laws, regulations and standards, including those related to climate change and emissions of greenhouse gases, may in the future add significantly to our operating costs or limit our activities or the activities and levels of capital spending by our customers.

In addition to the laws, regulations and requirements implemented since the Macondo well incident, the federal government has considered additional new laws, regulations and requirements, including those that would have imposed additional equipment requirements and that relate to the protection of the environment, which would be applicable to the offshore drilling industry in the U.S. Gulf of Mexico. The federal government may again consider implementing new laws, regulations and requirements. The implementation of new, more restrictive laws and regulations could lead to substantially increased potential liability and operating costs for us and our customers, which could cause our customers to discontinue or delay operating in the U.S. Gulf of Mexico and/or redeploy capital to international locations. These actions, if taken by any of our customers, could result in underutilization of our U.S. Gulf of Mexico assets and have an adverse impact on our revenue, profitability and financial position.

In addition, as our vessels age, the costs of drydocking the vessels in order to comply with governmental laws and regulations and to maintain their class certifications are expected to increase, which could adversely affect our financial condition and results of operations.

Compliance with or a breach of environmental laws and regulations can be costly and could limit our operations.

Our operations are subject to federal, state, local and foreign and/or international laws and regulations that require us to obtain and maintain specified permits or other governmental approvals, control the discharge of materials into the environment, require the removal and cleanup of materials that may harm the environment or otherwise relate to the protection of the environment. Governmental entities such as the U.S. Environmental Protection Agency and analogous state agencies have the power to enforce compliance with these laws and regulations and the permits issued under them, often requiring difficult and costly actions. For example, as an operator of mobile offshore drilling units in navigable U.S. waters and some offshore areas, we may be liable for damages and costs incurred in connection with oil spills or other unauthorized discharges of chemicals or wastes resulting from those operations. Additionally, the BSEE has extended its regulatory enforcement reach to include contractors which exposes contractors to potential fines, sanctions and penalties for violations of law arising in the BSEE's jurisdictional area. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions restricting some or all of our activities in the affected areas. Laws and regulations protecting the environment have become more stringent in recent years, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Some of these laws and regulations may expose us to liability for the conduct of or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed. The application of these requirements, the modification of existing laws or regulations or the adoption of new requirements, both in U.S. waters and internationally, could have a material adverse effect on our financial condition and results of operations.

We may not be able to maintain or replace our rigs and liftboats as they age.

The capital associated with the repair and maintenance of our fleet increases with age. We may not be able to maintain our fleet by extending the economic life of existing rigs and liftboats, and our financial resources may not be sufficient to enable us to make expenditures necessary for these purposes or to acquire or build replacement units.

Our operating and maintenance costs with respect to our rigs include fixed costs that will not decline in proportion to decreases in dayrates.

We do not expect our operating and maintenance costs with respect to our rigs to necessarily fluctuate in proportion to changes in operating revenue. Operating revenue may fluctuate as a function of changes in dayrate, but costs for operating a rig are generally fixed or only semi-variable regardless of the dayrate being earned. Additionally, if our rigs incur idle time between contracts, we typically do not de-man those rigs because we will use the crew to prepare

the rig for its next contract. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare our rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. Moreover, as our rigs are mobilized from one geographic location to another, including mobilizations to harsh environments where high specification rigs such as the Hercules Triumph, Hercules Resilience and Hercules Highlander generally operate, the labor and other operating and maintenance costs can increase significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age

Table of Contents

and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized.

Upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

We make upgrade, refurbishment and repair expenditures for our fleet from time to time, including when we acquire units or when repairs or upgrades are required by law, in response to an inspection by a governmental authority or when a unit is damaged. We also regularly make certain upgrades or modifications to our drilling rigs to meet customer or contract specific requirements. Upgrade, refurbishment and repair projects are subject to the risks of delay or cost overruns inherent in any large construction project, including costs or delays resulting from the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts and materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- unforeseen increases in the cost of equipment, labor and raw materials used for our rigs, particularly steel;
- unforeseen design and engineering problems;
- latent damages to or deterioration of hull, equipment and machinery in excess of engineering estimates and assumptions;
- unanticipated actual or purported change orders;
- work stoppages;
- failure or delay of third-party service providers and labor disputes;
- disputes with shipyards and suppliers;
- delays and unexpected costs of incorporating parts and materials needed for the completion of projects;
- failure or delay in obtaining acceptance of the rig from our customer;
- financial or other difficulties at shipyards, including shipyard incidents that could increase the cost and delay the timing of projects;
- adverse weather conditions; and
- inability or delay in obtaining customer acceptance or flag-state, classification society, certificate of inspection, or regulatory approvals.

Significant cost overruns or delays would adversely affect our financial condition and results of operations. Additionally, capital expenditures for rig upgrade, reactivation and refurbishment projects could exceed our planned capital expenditures. Failure to complete an upgrade, reactivation, refurbishment or repair project on time may, in some circumstances, result in the delay, renegotiation or cancellation of a drilling or liftboat contract and could put at risk our planned arrangements to commence operations on schedule. We also could be exposed to penalties for failure to complete an upgrade, refurbishment or repair project and commence operations in a timely manner. Our rigs and liftboats undergoing upgrade, reactivation, refurbishment or repair generally do not earn a dayrate during the period they are out of service.

We are subject to litigation that could have an adverse effect on us.

We are from time to time involved in various litigation matters. The numerous operating hazards inherent in our business increase our exposure to litigation, including personal injury litigation brought against us by our employees that are injured operating our rigs and liftboats. These matters may include, among other things, contract dispute, personal injury, environmental, asbestos and other toxic tort, employment, tax and securities litigation, and litigation that arises in the ordinary course of our business. We have extensive litigation brought against us in federal and state courts located in Louisiana, Mississippi and South Texas, areas that were significantly impacted by hurricanes during the last decade and by the Macondo well blowout incident. The jury pools in these areas have become increasingly more hostile to defendants, particularly corporate defendants in the oil and gas industry. We cannot predict with certainty the outcome or effect of any claim or other litigation matter. Litigation may have an adverse effect on us because of potential negative outcomes, the costs associated with defending the lawsuits, the diversion of our management's resources and other factors.

Our operations present hazards and risks that require significant and continuous oversight, and we depend upon the security and reliability of our technologies, systems and networks in numerous locations where we conduct business.

We continue to increase our dependence on digital technologies to conduct our operations, to collect monies from customers and to pay vendors and employees. In addition, we have outsourced certain information technology development,

Table of Contents

maintenance and support functions. As a result, we are exposed to cybersecurity risks at both our internal locations and outside vendor locations that could disrupt our operations for an extended period of time and result in the loss of critical data and in higher costs to correct and remedy the effects of such incidents, although no such material incidents have occurred to date. If our systems for protecting against information technology and cybersecurity risks prove to be insufficient, we could be adversely affected by having our business and financial systems compromised, our proprietary information altered, lost or stolen, or our business operations and safety procedures disrupted.

Changes in effective tax rates, taxation of our foreign subsidiaries, limitations on utilization of our net operating losses or adverse outcomes resulting from examination of our tax returns could adversely affect our operating results and financial results.

Our future effective tax rates could be adversely affected by changes in tax laws, both domestically and internationally. From time to time, Congress and foreign, state and local governments consider legislation that could increase our effective tax rates. We cannot determine whether, or in what form, legislation will ultimately be enacted or what the impact of any such legislation would be on our profitability. If these or other changes to tax laws are enacted, our profitability could be negatively impacted.

Our future effective tax rates could also be adversely affected by changes in the valuation of our deferred tax assets and liabilities, the ultimate repatriation of earnings from foreign subsidiaries to the United States, or by changes in tax treaties, regulations, accounting principles or interpretations thereof in one or more countries in which we operate. In addition, we are subject to the examination of our tax returns by the Internal Revenue Service and other tax authorities where we file tax returns. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance that any existing or future examinations by the Internal Revenue Service or other taxing authorities will not have an adverse effect on our operating results and financial condition.

Our ability to use net operating loss and credit carry-forwards to offset future taxable income for U.S. federal income tax purposes may be limited as a result of issuances of equity or other transactions.

In general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses (“NOLs”) and certain tax credits, to offset future taxable income and tax. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders changes by more than 50 percentage points over such stockholders’ lowest percentage ownership during the testing period (generally three years).

The amount of consolidated U.S. NOLs available to us as of December 31, 2014 is approximately $447.9 million, while we have $35.6 million of alternative minimum tax credits, including amounts acquired in the Seahawk Transaction. If not limited, these NOLs will expire in the years 2029 through 2031 and there is no limitation on the carryforward of these credits.

We have no plans to pay regular dividends on our common stock, so investors in our common stock may not receive funds without selling their shares.

We do not intend to declare or pay regular dividends on our common stock in the foreseeable future. Instead, we generally intend to invest any future earnings in our business. Subject to Delaware law, our board of directors will determine the payment of future dividends on our common stock, if any, and the amount of any dividends in light of any applicable contractual restrictions limiting our ability to pay dividends, our earnings and cash flows, our capital requirements, our financial condition, and other factors our board of directors deems relevant. Our existing indebtedness restricts our ability to pay dividends or other distributions on our equity securities. Accordingly, stockholders may have to sell some or all of their common stock in order to generate cash flow from their investment. Stockholders may not receive a gain on their investment when they sell our common stock and may lose the entire amount of their investment.

Provisions in our charter documents or Delaware law may inhibit a takeover, which could adversely affect the value of our common stock.

Our certificate of incorporation, bylaws and Delaware corporate law contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable. These provisions will apply even if the offer may be considered beneficial by some of our stockholders. If a change of control or change in

management is delayed or prevented, the market price of our common stock could decline.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Our property consists primarily of jackup rigs, liftboats and ancillary equipment, substantially all of which we own. The majority of our vessels and substantially all of our other personal property are pledged to collateralize our credit facility.

We maintain offices, maintenance facilities, yard facilities, warehouses, waterfront docks as well as residential premises in various countries, including the United States, United Kingdom, Nigeria, Singapore, Saudi Arabia, United Arab Emirates, India, Malaysia, and Bahrain. All of these properties are leased except for an office and a warehouse in the United Kingdom. Our leased principal executive offices are located in Houston, Texas.

We incorporate by reference in response to this item the information set forth in Item 1 of this annual report.

Item 3. Legal Proceedings

The Company is involved in various claims and lawsuits in the normal course of business. As of December 31, 2014, 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 our behalf in response to our failure to receive a majority advisory “say-on-pay” vote in favor of our 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 us as a nominal defendant and certain of our officers and directors, as well as our Compensation Committee’s consultant, as defendants. Plaintiffs allege that our 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 our behalf from the officer and director defendants, certain corporate governance actions, and an award of their costs and attorney's fees. We and the other defendants have filed motions to dismiss these cases for failure to make demand upon our 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, our and the other defendants' motions to dismiss the Delaware federal action were granted. The motions to dismiss the Texas federal action are pending.

We do not expect the ultimate outcome of the shareholder derivative lawsuit to have a material adverse effect on our 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 us 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 we filed relating to the incident. We have tendered defense and indemnity to Walter for the claims asserted by Cameron and Axon, pursuant to the terms of the drilling contract between us and Walter. We have also tendered defense and demanded indemnity to Axon for the claims asserted by Cameron against us, pursuant to a Master Services Agreement between Axon and us. Until such time as Walter and/or Axon accept the tender, we will vigorously defend the claims.

EPA Notice of Potential Violation of Resource Conservation and Recovery Act

In December 2014, we received a notice from the EPA alleging potential violations of the Resource Conservation and Recovery Act (“RCRA”) related to hazardous waste generation requirements. We have agreed to pay a penalty of approximately $132,000 to resolve the matter and are in the process of finalizing the associated Consent Agreement and Final Order. We believe the ultimate resolution of this matter will not have a material impact on our results of

operations, financial position or cash flows.

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

Table of Contents

We 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 our belief or expectations as to the outcome or effect of any lawsuit or other litigation matter will prove correct, and the eventual outcome of these matters could materially differ from our current estimates.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Quarterly Common Stock Prices and Dividend Policy

Our common stock is traded on the NASDAQ Global Select Market under the symbol "HERO." As of February 23, 2015, there were 118 stockholders of record. On February 23, 2015, the closing price of our common stock as reported by NASDAQ was $0.81 per share. The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock:

	Price	
	High	Low
2014		
Fourth Quarter	$2.27	$0.97
Third Quarter	4.28	2.14
Second Quarter	5.05	3.90
First Quarter	6.74	4.38
	Price	
	High	Low
2013		
Fourth Quarter	$7.54	$5.82
Third Quarter	7.96	6.61
Second Quarter	7.83	6.21
First Quarter	7.62	6.25

We have not paid any cash dividends on our common stock since becoming a publicly held corporation in October 2005, and we do not intend to declare or pay regular dividends on our common stock in the foreseeable future. Instead, we generally intend to invest any future earnings in our business. Subject to Delaware law, our board of directors will determine the payment of future dividends on our common stock, if any, and the amount of any dividends in light of any applicable contractual restrictions limiting our ability to pay dividends, our earnings and cash flows, our capital requirements, our financial condition, and other factors our board of directors deems relevant. Our Credit Agreement as well as indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes and 10.25% Senior Notes restrict our ability to pay dividends or other distributions on our equity securities.

Issuer Purchases of Equity Securities

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)
October 1 - 31, 2014	109	$1.47	N/A	N/A
November 1 - 30, 2014	2,146	1.60	N/A	N/A
December 1 - 31, 2014	82	1.16	N/A	N/A
Total	2,337	1.58	N/A	N/A

(1)

Represents the surrender of shares of our common stock to satisfy tax withholding obligations in connection with 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 2014, 2013 or 2012, and currently do not have, a share repurchase program in place.

Table of Contents

Item 6. Selected Financial Data

We have derived the following condensed consolidated financial information as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 from our audited consolidated financial statements included in Item 8 of this report. The condensed consolidated financial information as of December 31, 2012, and for the year ended December 31, 2011 was derived from our audited consolidated financial statements included in Item 8 of our annual report on Form 10-K for the year ended December 31, 2013. The condensed consolidated financial information as of December 31, 2011 and for the year ended December 31, 2010 was derived from our audited consolidated financial statements included in Item 8 of our annual report on Form 10-K for the year ended December 31, 2012, as amended by our current report on Form 8-K filed on August 23, 2013. The condensed consolidated financial information as of December 31, 2010 was derived from accounting records as adjusted for discontinued operations and related asset transfers.

We were formed in July 2004 and commenced operations in August 2004. From our formation to December 31, 2014, we completed our (i) acquisition of the remaining 68% interest in Discovery Offshore S.A. ("Discovery") (52% on June 24, 2013 ("Acquisition Date")), and the remaining interest to reach 100% in the third quarter of 2013), which includes Hercules Triumph and Hercules Resilience; ii) acquisition of 20 jackup rigs and related assets, accounts receivable, accounts payable and certain contractual rights from Seahawk Drilling, Inc. and certain of its subsidiaries ("Seahawk") ("Seahawk Transaction") on April 27, 2011; iii) acquisition of TODCO and iv) acquisition of several other significant assets. Our financial results reflect the consolidation of Discovery's results as of the Acquisition Date, the impact of the Seahawk Transaction and various asset acquisitions from their respective dates of closing, which impacts the comparability of our historical financial results presented in the tables below.

In 2013, we closed on the sale of the majority of the Inland barges as well as our U.S. Gulf of Mexico Liftboats and related assets. The results of operations of the Inland segment and Domestic Liftboats segment are reflected in the Consolidated Statements of Operations for all periods presented as discontinued operations. The remaining assets of the Inland segment, which included spare equipment, one cold stacked barge and a barge that is used as a training rig, were transferred to the Domestic Offshore segment and the historical results of Domestic Offshore were recast to include the operating results of these remaining assets. Additionally, in 2009 (4 vessels) and 2012 (1 vessel), we transferred certain assets from our Domestic Liftboats segment to our International Liftboats segment. The historical results generated by these assets that were previously reported in the Domestic Liftboats segment are reported in the International Liftboats segment.

The selected consolidated financial information below should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this annual report and our audited consolidated financial statements and related notes included in Item 8 of this annual report. In addition, the following information may not be deemed indicative of our future operations.

	Year Ended December 31, 2014 (a)	Year Ended December 31, 2013 (b)	Year Ended December 31, 2012 (c)	Year Ended December 31, 2011	Year Ended December 31, 2010 (d)
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue	$900,251	$858,300	$618,225	$574,571	$537,114
Operating Income (loss) attributable to Hercules Offshore, Inc.	(88,499)	51,471	(59,727)	(6,412)	(140,681)
Loss from continuing operations attributable to Hercules Offshore, Inc.	(216,110)	(26,770)	(121,000)	(54,750)	(126,018)
Loss per share from continuing operations attributable to Hercules Offshore, Inc.:					
Basic and Diluted	$(1.35)	$(0.17)	$(0.79)	$(0.42)	$(1.10)

Balance Sheet Data (as of end of period):					
Cash and cash equivalents	$207,937	$198,406	$259,193	$134,351	$136,666
Working capital	239,841	227,291	217,184	174,598	182,276
Total assets	2,002,407	2,301,448	2,016,630	2,006,704	1,995,309
Long-term debt, net of current portion	1,210,919	1,210,676	798,013	818,146	853,166
Total equity	615,031	823,700	882,762	908,553	853,132
Cash dividends per share	—	—	—	—	—

Table of Contents

(a) Includes $199.5 million ($199.5 million, net of taxes or $1.24 per diluted share) in non-cash asset impairment charges. In addition, 2014 includes a $22.6 million ($22.6 million, net of taxes or $0.14 per diluted share) net gain on sale of cold stacked drilling rigs and a $19.9 million charge ($19.9 million, net of taxes or $0.12 per diluted share) related to retirement of the 7.125% Senior Secured Notes and issuance of the 6.75% Senior Notes.

(b) Includes $114.2 million ($114.2 million, net of taxes or $0.72 per diluted share) in non-cash asset impairment charges. 2013 includes an $11.5 million loss ($11.5 million, net of taxes or $0.07 per diluted share) on the sale of Hercules 170 and a $31.6 million gain ($31.6 million, net of taxes or $0.20 per diluted share) for the Hercules 265 insurance settlement. In addition, 2013 includes a $14.9 million gain ($14.9 million, net of taxes or $0.09 per diluted share) on equity investment, a $29.3 million charge ($29.3 million, net of taxes or $0.18 per diluted share) related to the redemption of the 10.5% Senior Notes and issuance of the 7.5% Senior Notes and a $37.7 million tax benefit ($0.24 per diluted share) recognized related to the change in characterization of the Seahawk Acquisition for tax purposes from a purchase of assets to a reorganization.

(c) Includes $108.2 million ($82.7 million, net of taxes or $0.54 per diluted share) in non-cash asset impairment charges. In addition, 2012 includes an $18.4 million gain ($11.9 million, net of taxes or $0.08 per diluted share) on the sale of Platform Rig 3 as well as a $27.3 million gain ($17.7 million, net of taxes or $0.12 per diluted share) for the Hercules 185 insurance settlement.

(d) Includes $122.7 million ($79.8 million, net of taxes or $0.69 per diluted share) in impairment of property and equipment charges.

	Year Ended December 31, 2014	Year Ended December 31, 2013 (a)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
	(In thousands)				
Other Financial Data:					
Net cash provided by (used in):					
Operating activities	$114,713	$182,470	$68,363	$52,025	$24,420
Investing activities	(101,841)	(572,663)	(52,269)	(32,520)	(21,306)
Financing activities	(3,341)	329,406	108,748	(21,820)	(7,276)
Capital expenditures	147,522	544,987	138,605	55,222	37,058

(a) 2013 Capital expenditures includes a $166.9 million final shipyard installment payment for each of Hercules Triumph and Hercules Resilience.

Item 7. 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 consolidated financial statements as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012, included in Item 8 of this annual report. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under “Risk Factors” in Item 1A and elsewhere in this annual report. See “Forward-Looking Statements”.

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 February 19, 2015, we operated a fleet of 33 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.

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 (HSHE) newbuild rig is based on the Friede & Goldman JU-2000E design, with a 400

Table of Contents

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 $244 million remains to be spent at December 31, 2014. 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 with a second 10% payment due one year after the initial payment and 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. Specific to the Perisai Agreement, we recognized revenue and operating expenses of $11.1 million and $5.6 million, respectively, for the year ended December 31, 2014. These results are included in our International Offshore segment. Perisai Pacific 102 is expected to be delivered in the second quarter of 2015.

Drilling Contract Termination

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 are in the process of seeking a basis for continuing the Hercules 261 contract. There will be no termination fee payable to us under the contract as a result of such termination.

Asset Dispositions and Impairment

During 2014, we sold six rigs, Hercules 258, Hercules 250, Hercules 2002, Hercules 2003, Hercules 2500 and Hercules 156, for gross proceeds of $33.1 million and recorded a net gain on the sales of $22.6 million for the year ended December 31, 2014.

We made the decision to remove nine rigs, Hercules 120, Hercules 200, Hercules 202, Hercules 204, Hercules 212, Hercules 213, Hercules 214, Hercules 251 and Hercules 253, from our marketable assets into our non-marketable assets as we do not reasonably expect to market these rigs in the foreseeable future. This decision resulted in a non-cash impairment charge of approximately $199.5 million ($199.5 million, net of tax), which is included in Asset Impairment on the Consolidated Statement of Operations for the year ended December 31, 2014, to write the rigs down to fair value based on a third-party estimate. The financial information for these rigs has been reported as part of the Domestic Offshore segment.

Segments

As of February 19, 2015, our business segments were Domestic Offshore, International Offshore, and International Liftboats, which included 24 jackup rigs, nine jackup rigs (including one jackup rig under construction) and 24 liftboats (including five liftboats owned by a third party), respectively (See the information set forth in Part I, Item 1. Business - Our Segments and Fleet).

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.

Our revenue is affected primarily by dayrates, fleet utilization, the number and type of units in our fleet and mobilization fees received from our customers. Utilization and dayrates, in turn, are influenced principally by the

demand for rig and liftboat services from the exploration and production sectors of the oil and natural gas industry. Our contracts in the U.S. Gulf of Mexico tend to be short-term in nature and are heavily influenced by changes in the supply of units relative to the fluctuating expenditures for both drilling and production activity. Most of our international drilling contracts and some of our international liftboat contracts are longer term in nature.

Our operating costs are primarily a function of fleet configuration and utilization levels. The most significant direct operating costs for our Domestic Offshore and International Offshore segments are wages paid to crews, maintenance and repairs to the rigs, and insurance. These costs do not vary significantly whether the rig is operating under contract or idle, unless we believe that the rig is unlikely to work for a prolonged period of time, in which case we may decide to “cold stack”

Table of Contents

or “warm stack” the rig. Cold stacking is a common term used to describe a rig that is expected to be idle for a protracted period and typically for which routine maintenance is suspended and the crews are either redeployed or laid-off. When a rig is cold stacked, operating expenses for the rig are significantly reduced because the crew is smaller and maintenance activities are suspended. Placing rigs in service that have been cold stacked typically requires a lengthy reactivation project that can involve significant expenditures and potentially additional regulatory review, particularly if the rig has been cold stacked for a long period of time. Warm stacking is a term used for a rig expected to be idle for a period of time that is not as prolonged as is the case with a cold stacked rig. Maintenance is continued for warm stacked rigs. Crews are reduced but a small crew is retained. Warm stacked rigs generally can be reactivated in three to four weeks.

The most significant costs for our International Liftboats segment are the wages paid to crews, maintenance and repairs to the vessels and the amortization of regulatory drydocking costs. Unlike our Domestic Offshore and International Offshore segments, a significant portion of the expenses incurred with operating each liftboat are paid for or reimbursed by the customer under contractual terms and prices. This includes catering, oil, rental equipment and other items. We record reimbursements from customers as revenue and the related expenses as operating costs. Our liftboats are required to undergo regulatory inspections every year and to be drydocked two times every five years; the drydocking expenses and length of time in drydock vary depending on the condition of the vessel.

Table of Contents

RESULTS OF OPERATIONS

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

	Year Ended December 31,			
	2014	2013	Change	% Change
	(Dollars in thousands)			
Domestic Offshore:				
Number of rigs (as of end of period)	24	28		
Revenue	$497,209	$522,705	$(25,496)	(4.9)%
Operating expenses	261,399	232,166	29,233	12.6 %
Asset impairment	199,508	114,168	85,340	n/m
Depreciation and amortization expense	70,576	78,526	(7,950)	(10.1)%
General and administrative expenses	6,314	7,643	(1,329)	(17.4)%
Operating income (loss)	$(40,588)	$90,202	$(130,790)	n/m
International Offshore:				
Number of rigs (as of end of period)	9	10		
Revenue	$291,486	$190,376	$101,110	53.1 %
Operating expenses	207,190	145,650	61,540	42.3 %
Depreciation and amortization expense	75,672	51,759	23,913	46.2 %
General and administrative expenses	8,322	12,729	(4,407)	(34.6)%
Operating income (loss)	$302	$(19,762)	$20,064	n/m
International Liftboats:				
Number of liftboats (as of end of period)	24	24		
Revenue	$111,556	$145,219	$(33,663)	(23.2)%
Operating expenses	74,647	83,516	(8,869)	(10.6)%
Depreciation and amortization expense	20,763	18,627	2,136	11.5 %
General and administrative expenses	11,712	5,501	6,211	112.9 %
Operating income	$4,434	$37,575	$(33,141)	(88.2)%
Total Company:				
Revenue	$900,251	$858,300	$41,951	4.9 %
Operating expenses	543,236	461,332	81,904	17.8 %
Asset impairment	199,508	114,168	85,340	n/m
Depreciation and amortization expense	170,898	151,943	18,955	12.5 %
General and administrative expenses	75,108	79,425	(4,317)	(5.4)%
Operating income (loss)	(88,499)	51,432	(139,931)	n/m
Interest expense	(99,142)	(73,248)	(25,894)	35.4 %
Loss on extinguishment of debt	(19,925)	(29,295)	9,370	n/m
Gain on equity investment	—	14,876	(14,876)	n/m
Other, net	(39)	(1,518)	1,479	(97.4)%
Loss before income taxes	(207,605)	(37,753)	(169,852)	449.9 %
Income tax benefit (provision)	(8,505)	10,944	(19,449)	n/m
Loss from continuing operations	(216,110)	(26,809)	(189,301)	706.1 %
Loss from discontinued operations, net of taxes	—	(41,308)	41,308	n/m
Net loss	(216,110)	(68,117)	(147,993)	217.3 %
Loss attributable to noncontrolling interest	—	39	(39)	n/m
Net loss attributable to Hercules Offshore, Inc.	$(216,110)	$(68,078)	$(148,032)	217.4 %

"n/m" means not meaningful.

33

Table of Contents

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

	Year Ended December 31, 2014					
	Operating Days	Available Days	Utilization(1)		Average Revenue per Day(2)	Average Operating Expense per Day(3)
Domestic Offshore	4,624	6,243	74.1	%	$107,528	$41,871
International Offshore	2,025	2,875	70.4	%	143,944	72,066
International Liftboats	4,332	8,395	51.6	%	25,752	8,892

	Year Ended December 31, 2013					
	Operating Days	Available Days	Utilization(1)		Average Revenue per Day(2)	Average Operating Expense per Day(3)
Domestic Offshore	5,930	6,649	89.2	%	$88,146	$34,917
International Offshore	1,572	2,177	72.2	%	121,104	66,904
International Liftboats	5,900	8,336	70.8	%	24,613	10,019

(1) 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.

(2) 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.

(3) 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.

2014 Compared to 2013

Revenue

Consolidated. The increase in consolidated revenue is described below.

Domestic Offshore. Revenue decreased for our Domestic Offshore segment due to a decline in operating days in the Current Period as compared to the Comparable Period, which contributed to a decrease in revenue of approximately $140 million primarily due to lower demand, several rigs undergoing scheduled regulatory surveys and repairs as well as Hercules 265 being out of service in the Current Period. Partially offsetting this decrease, our Domestic Offshore segment realized higher average dayrates in the Current Period as compared to the Comparable Period, which contributed to an increase of approximately $115 million.

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

- $35.9 million increase from Hercules Triumph primarily due to the rig commencing work in November 2013;
- $32.1 million increase from Hercules Resilience primarily due to the rig commencing work in February 2014;
- $20.9 million increase from Hercules 208 primarily driven by the rig being in the shipyard during the Comparable Period for a special survey as well as higher utilization in the Current Period and mobilization revenue recognized in the current period;
- $14.3 million increase from Hercules 266 as the rig commenced work in April 2013;
- $14.9 million increase from Hercules 267 as the rig commenced work in November 2013;

- $11.1 million increase related to the Perisai management agreement; partially offset by
$14.2 million decrease from Hercules 260 as it was ready stacked during a portion of the Current Period as well as the Comparable Period including revenue for the reimbursement of certain costs from our customer related to the rig's spudcan damage; and

Table of Contents

- $7.3 million decrease from Hercules 261 primarily driven by the rig being in the shipyard during a significant portion of the Current Period for a special survey.

International Liftboats. The decrease in revenue from our International Liftboats segment resulted largely from a decrease in utilization of the majority of our vessels in West Africa. This decrease was partially offset by a $6.5 million increase in revenue from our vessels in the Middle East.

Operating Expenses

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

Domestic Offshore. The increase in operating expenses for our Domestic Offshore segment related primarily to the following:

- $25.8 million increase from Hercules 265 due to a $31.6 million gain on insurance settlement in the Comparable Period partially offset by a reduction in operating expenses in the Current Period due to the rig being out of service;
- $4.6 million increase in labor costs in the Current Period as compared to the Comparable Period;
- $5.9 million increase to state sales and use taxes in the Current Period as compared to the Comparable Period;
- $3.8 million increase to workers' compensation; partially offset by
- $3.1 million decrease to repairs and maintenance; and
- $9.6 million in additional net gains on asset sales in the Current Period as compared to the Comparable Period.

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

- $29.7 million increase from Hercules Resilience primarily due to the rig commencing operations in February 2014;
- $27.2 million increase from Hercules Triumph primarily due to the rig commencing operations in November 2013 and incurring costs in the Current Period of approximately $8 million to mobilize the rig from India to the North Sea;
- $25.3 million increase from Hercules 267 primarily due to the rig being in the shipyard in the Comparable Period preparing for a contract;
- $5.6 million increase related to the Perisai management agreement;
- $4.1 million increase from Hercules 261 primarily driven by the rig being in the shipyard during a significant portion of the Current Period for a special survey;
- $3.9 million increase from Hercules 266 as the rig began working in April 2013; partially offset by a
- $10.5 million gain on the sale of Hercules 258 in the Current Period;
- $11.5 decrease from Hercules 170 due to a loss on its sale in the Comparable Period; and
- $7.4 million decrease from Hercules 260 in the Current Period as compared to the Comparable Period primarily due to repair costs in the Comparable Period related to the rig's spudcan damage.

International Liftboats. The decrease in operating expenses for our International Liftboats segment is primarily due to a $4.8 million reduction in repairs and maintenance costs in the Current Period as compared to the Comparable Period and a $2.6 million write down of the Croaker to fair market value in the Comparable Period.

Asset Impairment

During the Current Period, we recorded non-cash asset impairment charges of $199.5 million in our Domestic Offshore segment to write-down the Hercules 120, Hercules 200, Hercules 202, Hercules 204, Hercules 212, Hercules 213, Hercules 214, Hercules 251 and Hercules 253 to fair value based on a third-party estimate.

In the Comparable Period, we recorded a non-cash asset impairment charge of $114.2 million in our Domestic Offshore segment which includes the write-down of Hercules 153, Hercules 203, Hercules 206 and Hercules 250 to fair value based on a third-party estimate.

Depreciation and Amortization

The increase in depreciation and amortization is largely due to the additional depreciation for the Hercules Resilience, Hercules Triumph, Hercules 267, Hercules 266 and other capital projects, which contributed to increases of $8.2 million, $6.8 million, $5.9 million, $2.9 million and $15.5 million, respectively. These increases are partially offset by a reduction in depreciation of $15.2 million due to rigs impaired in 2013 and the third quarter of 2014 and $3.6 million due to the sale of Hercules 170 in 2013.

Table of Contents

General and Administrative Expenses

The decrease in general and administrative expenses is primarily related to a $6.7 million decrease to labor costs, primarily in Corporate, and a $2.6 million decrease to professional fees, primarily in our International Offshore segment. These decreases are partially offset by a $5.0 million increase to bad debt provision in the Current Period as compared to the Comparable Period primarily related to a customer in our International Liftboat segment.

Interest Expense

The increase in interest expense for the Current Period is primarily due to $18.0 million in interest on our 8.75% Senior Notes due 2021 which were issued in July 2013 as well as a reduction in interest capitalization of $16.0 million in the Current Period as compared to the Comparable Period. The Comparable Period included interest capitalization on upgrade and reactivation projects and the Hercules Triumph project which were all completed in 2013, and the Hercules Resilience project which was completed in February 2014, while the Current Period includes interest capitalization on the Hercules Resilience and Hercules Highlander projects. These increases in interest expense are partially offset by a $7.9 million reduction in interest expense associated with the redemption of our 10.5% Senior Notes and refinancing these notes with the issuance of our 7.5% Senior Notes in the fourth quarter of 2013.

Loss on Extinguishment of Debt

During the Current 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.

During the fourth quarter of 2013, we redeemed $300.0 million aggregate principal amount of our 10.5% Senior Notes and expensed $17.3 million for the call premium, as well as wrote off $4.2 million and $4.8 million in unamortized debt issuance costs and unamortized discount associated with these notes. Additionally, we expensed $3.0 million in bank fees related to the October 2013 refinancing of these notes with the issuance of the 7.5% Senior Notes.

Gain on Equity Investment

During the Comparable Period, we recognized a gain of $14.9 million as a result of remeasuring our 32% equity interest in Discovery at its fair value as of the acquisition date of a controlling interest in Discovery in June 2013.

Income Tax Benefit (Provision)

During the Current Period we generated income tax expense from continuing operations of $8.5 million, compared to an income tax benefit from continuing operations of $10.9 million, during the Comparable Period. The change is primarily related to the $37.7 million tax benefit recorded in the Comparable Period related to the tax attributes received from the Seahawk Transaction net of a valuation allowance. Additionally, the variation is due to the change to the US valuation allowance partially offset by the tax effect of the mix of earnings (losses) from different jurisdictions, and the impact of discrete items.

Discontinued Operations

In the Comparable Period, we had a loss from our former Inland and Domestic Liftboat operations of $37.0 million, net of taxes, and $4.3 million, net of taxes, respectively. These losses included a pre-tax non-cash asset impairment charge of $40.9 million and $3.5 million for the former Inland and Domestic Liftboat operations, respectively, to write down the assets to fair value less estimated costs to sell. Additionally, the loss from our former Inland operations includes a $4.8 million pre-tax gain on the sale of Hercules 27 in August 2013. The sale of these assets was completed in the third quarter of 2013.

Table of Contents

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

	Year Ended December 31,			
	2013	2012	Change	% Change
	(Dollars in thousands)			
Domestic Offshore:				
Number of rigs (as of end of period)	28	29		
Revenue	$522,705	$355,762	$166,943	46.9 %
Operating expenses	232,166	236,485	(4,319)	(1.8)%
Asset impairment	114,168	25,502	88,666	n/m
Depreciation and amortization expense	78,526	76,890	1,636	2.1 %
General and administrative expenses	7,643	8,130	(487)	(6.0)%
Operating income	$90,202	$8,755	$81,447	n/m
International Offshore:				
Number of rigs (as of end of period)	10	8		
Revenue	$190,376	$135,047	$55,329	41.0 %
Operating expenses	145,650	66,144	79,506	120.2 %
Asset impairment	—	82,714	(82,714)	n/m
Depreciation and amortization expense	51,759	45,577	6,182	13.6 %
General and administrative expenses	12,729	(183)	12,912	n/m
Operating loss	$(19,762)	$(59,205)	$39,443	(66.6)%
International Liftboats:				
Number of liftboats (as of end of period)	24	24		
Revenue	$145,219	$127,416	$17,803	14.0 %
Operating expenses	83,516	67,467	16,049	23.8 %
Depreciation and amortization expense	18,627	17,213	1,414	8.2 %
General and administrative expenses	5,501	4,588	913	19.9 %
Operating income	$37,575	$38,148	$(573)	(1.5)%
Total Company:				
Revenue	$858,300	$618,225	$240,075	38.8 %
Operating expenses	461,332	370,096	91,236	24.7 %
Asset impairment	114,168	108,216	5,952	n/m
Depreciation and amortization expense	151,943	142,329	9,614	6.8 %
General and administrative expenses	79,425	57,311	22,114	38.6 %
Operating income (loss)	51,432	(59,727)	111,159	n/m
Interest expense	(73,248)	(72,734)	(514)	0.7 %
Loss on extinguishment of debt	(29,295)	(9,156)	(20,139)	n/m
Gain on equity investment	14,876	—	14,876	n/m
Other, net	(1,518)	1,896	(3,414)	n/m
Loss before income taxes	(37,753)	(139,721)	101,968	(73.0)%
Income tax benefit	10,944	18,721	(7,777)	(41.5)%
Loss from continuing operations	(26,809)	(121,000)	94,191	(77.8)%
Loss from discontinued operations, net of taxes	(41,308)	(6,004)	(35,304)	n/m
Net loss	(68,117)	(127,004)	58,887	(46.4)%
Loss attributable to noncontrolling interest	39	—	39	n/m
Net loss attributable to Hercules Offshore, Inc.	$(68,078)	$(127,004)	$58,926	(46.4)%

"n/m" means not meaningful.

37

Table of Contents

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

	Year Ended December 31, 2013					
	Operating Days	Available Days	Utilization		Average Revenue per Day	Average Operating Expense per Day
Domestic Offshore	5,930	6,649	89.2	%	$88,146	$34,917
International Offshore	1,572	2,177	72.2	%	121,104	66,904
International Liftboats	5,900	8,336	70.8	%	24,613	10,019

	Year Ended December 31, 2012					
	Operating Days	Available Days	Utilization		Average Revenue per Day	Average Operating Expense per Day
Domestic Offshore	5,760	6,588	87.4	%	$61,764	$35,896
International Offshore	1,331	2,336	57.0	%	101,463	28,315
International Liftboats	5,383	7,670	70.2	%	23,670	8,796

2013 Compared to 2012

Revenue

Consolidated. The increase in consolidated revenue is described below.

Domestic Offshore. Revenue increased for our Domestic Offshore segment due to higher average dayrates as well as additional operating days in 2013 as compared to 2012, which contributed an increase of approximately $152 million and $15 million, respectively.

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

- $37.8 million increase from Hercules 266 as it was acquired in March 2012 and commenced work in April 2013;
- $19.6 million increase from Hercules Triumph primarily due to the rig commencing work in November 2013;
- $14.3 million increase from Hercules 262 primarily due to it being in the shipyard preparing for a new contract a portion of 2012;
- $10.5 million increase from Hercules 261 primarily due to it being in the shipyard preparing for a new contract a portion of 2012;
- $13.0 million decrease from Hercules 185 primarily due to cash received from one international customer in 2012 for which revenue criteria had not previously been met; and
- $11.6 million decrease from Platform Rig 3 as it was sold in August 2012.

International Liftboats. The increase in revenue from our International Liftboats segment resulted primarily from an increase in operating days, largely due to the addition of the Bull Ray, in 2013 as compared to 2012 which contributed to an increase of approximate $13 million. Average revenue per vessel per day also increased in 2013 as compared to 2012, contributing to an increase in revenue of approximately $5 million.

Operating Expenses

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

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

- $31.6 million gain on the Hercules 265 insurance settlement in 2013; partially offset by
- $7.6 million incremental costs from Hercules 209 operating in 2013 after its reactivation;
- $12.9 million increase in labor costs in 2013 as compared to 2012; and
- $14.2 million of gains on asset sales in 2012.

Table of Contents

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

- $27.3 million gain on the Hercules 185 insurance settlement in 2012, partially offset by costs incurred in 2012 associated with the additional damage the rig sustained during its return mobilization to Angola;
- $18.4 million gain on the sale of Platform Rig 3 in 2012, partially offset by costs incurred in 2012;
- $14.8 million increase from Hercules 266 as the rig began working in April 2013;
- $11.5 million loss on the sale of Hercules 170 in 2013;
- $8.1 million increase from Hercules Triumph primarily due to the rig commencing operations in November 2013;
- $7.4 million increase from Hercules 262 primarily due to the rig being in the shipyard preparing for a new contract a portion of 2012;
- $7.5 million increase from Hercules 260 in 2013 as compared to 2012 primarily due to repair costs related to its spud can damage; and
- $4.8 million decrease from Hercules 258 as the rig was cold stacked in the fourth quarter of 2012.

International Liftboats. The increase in operating expenses for our International Liftboats segment related primarily to the following:

- $2.6 million increase related to the write down of the Croaker to fair market value in 2013;
- $4.7 million increase due to the Bull Ray operating in the International Liftboats segment in 2013 after its purchase in March 2013;
- $5.3 million increase in labor costs in 2013 as compared to 2012; and
- $1.6 million insurance gain recognized on the loss of the Mako in 2012.

Asset Impairment

In 2013 we recorded a non-cash asset impairment charge of $114.2 million in our Domestic Offshore segment which includes the write-down of Hercules 153, Hercules 203, Hercules 206 and Hercules 250 to fair value based on a third-party estimate.

In 2012 we recorded a non-cash asset impairment charge of $82.7 million in our International Offshore segment which includes $35.2 million related to the write-down of Hercules 258 to fair value based on a third-party estimate, $42.9 million related to the write-down of Hercules 185 to salvage value and $4.6 million related to the write off of unamortized deferred costs associated with the Hercules 185 contract. Additionally, Hercules 252, which was held for sale at September 30, 2012, was written down to its fair value less estimated cost to sell, resulting in a non-cash impairment charge of $25.5 million in 2012 to our Domestic Offshore segment.

Depreciation and Amortization

The increase in depreciation and amortization is largely due to the additional deprecation for the Hercules 266 and other capital projects, which contributed to increases of $8.0 million and approximately $17.1 million, respectively. These increases are partially offset by a reduction in depreciation of $9.6 million primarily due to rigs sold. Additionally, the Hercules 258 contributed to a $2.5 million reduction in depreciation after its impairment in 2012.

General and Administrative Expenses

The increase in general and administrative expenses is primarily related to higher recoveries from one international customer of doubtful accounts receivable in 2012 of $8.8 million. Additionally, labor costs, primarily in corporate, and professional fees, primarily in our International Offshore segment, increased $7.7 million and $2.1 million, respectively.

Interest Expense

Interest expense for 2013 is essentially flat with 2012. Higher interest expense is offset by higher interest capitalization on upgrade and reactivation projects in addition to the Hercules Triumph and Hercules Resilience projects.

Loss on Extinguishment of Debt

During the fourth quarter of 2013, we redeemed $300.0 million aggregate principal amount of our 10.5% Senior Notes and expensed $17.3 million for the call premium, as well as wrote off $4.2 million and $4.8 million in unamortized debt issuance costs and unamortized discount associated with these notes. Additionally, we expensed $3.0 million in bank fees related to the October 2013 refinancing of these notes with the issuance of the 7.5% Senior Notes.

During the second quarter of 2012, we expensed $6.4 million related to the April 2012 debt refinancing and wrote off $1.4 million of unamortized debt issuance costs associated with the April 2012 termination of our prior term loan. Additionally, in May 2012, we repurchased a portion of our 3.375% Convertible Senior Notes, resulting in a loss of $1.3 million.

Table of Contents

Gain on Equity Investment

During 2013, we recognized a gain of $14.9 million as a result of remeasuring our 32% equity interest in Discovery at its fair value as of the acquisition date of a controlling interest in Discovery in June 2013.

Other, net

The increase in other expense is primarily due to change in the fair value of the Discovery warrants as we recognized a loss of $0.4 million in 2013 compared to a gain of $2.2 million in 2012. Additionally, we recognized $0.5 million of additional equity in losses from Discovery during 2013 as compared to 2012.

Income Tax Benefit

During 2013 we generated an income tax benefit from continuing operations of $10.9 million, for an effective rate of 29.0%, compared to an income tax benefit from continuing operations of $18.7 million, for an effective rate of 13.4%, during 2012. The increase is primarily related to the $37.7 million tax benefit recorded in 2013 related to the tax attributes received from the Seahawk Transaction net of a valuation allowance. This benefit is partially offset by $28.4 million of tax expense related to additional valuation allowance recorded against US tax assets. Additionally, the variation is due to the tax effect of the mix of earnings (losses) from different jurisdictions.

Discontinued Operations

We had a loss from our discontinued Inland operations of $37.0 million during 2013 compared to a loss of $8.1 million in 2012, primarily due to the $40.9 million non-cash asset impairment charge in 2013 to write down the assets to fair value less estimated costs to sell, partially offset by the $4.8 million gain on the sale of Hercules 27 in August 2013. We had a loss from our discontinued Domestic Liftboat operations of $4.3 million during 2013 compared to income of $2.1 million in 2012, primarily due to the $3.5 million non-cash asset impairment charge in 2013 to write down the assets to fair value less estimated costs to sell.

Non-GAAP Financial Measures

Regulation G, General Rules Regarding Disclosure of Non-GAAP Financial Measures and other SEC regulations define and prescribe the conditions for use of certain Non-Generally Accepted Accounting Principles (“Non-GAAP”) financial measures. We use various Non-GAAP financial measures such as adjusted operating income, adjusted income (loss) from continuing operations, adjusted diluted earnings (loss) per share from continuing operations, 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) under certain scenarios the Credit Agreement requires us to maintain compliance with a maximum secured leverage ratio, which contains Non-GAAP adjustments as components, iv) 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, v) results excluding certain costs and expenses provide useful information for the understanding of the ongoing operations without the impact of significant special items, and vi) 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 income from continuing operations or 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.

Table of Contents

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

	For the Years Ended December 31,		
	2014	2013	2012
Operating Income (Loss) attributable to Hercules Offshore, Inc.	$(88,499)	$51,471	$(59,727)
Adjustments:			
Asset impairment	199,508	114,168	108,216
Net gain on sale of cold-stacked drilling rigs	(22,620)	—	—
Gain on Hercules 265 insurance settlement	—	(31,600)	—
Loss on sale of Hercules 170	—	11,498	—
Gain on sale of Platform Rig 3	—	—	(18,350)
Gain on Hercules 185 insurance settlement	—	—	(27,268)
Total adjustments	176,888	94,066	62,598
Adjusted Operating Income	$88,389	$145,537	$2,871
Loss from Continuing Operations attributable to Hercules Offshore, Inc.	$(216,110)	$(26,770)	$(121,000)
Adjustments:			
Asset impairment	199,508	114,168	108,216
Net gain on sale of cold-stacked drilling rigs	(22,620)	—	—
Gain on Hercules 265 insurance settlement	—	(31,600)	—
Loss on sale of Hercules 170	—	11,498	—
Gain on sale of Platform Rig 3	—	—	(18,350)
Gain on Hercules 185 insurance settlement	—	—	(27,268)
Loss on extinguishment of debt	19,925	29,295	9,156
Gain on equity investment	—	(14,876)	—
Tax benefit (a)	—	(37,729)	—
Tax impact of adjustments	—	—	(12,796)
Total adjustments	196,813	70,756	58,958
Adjusted Income (Loss) from Continuing Operations	$(19,297)	$43,986	$(62,042)
Diluted Loss per Share from Continuing Operations	$(1.35)	$(0.17)	$(0.79)
Adjustments:			
Asset impairment	1.24	0.71	0.70
Net gain on sale of cold-stacked drilling rigs	(0.14)	—	—
Gain on Hercules 265 insurance settlement	—	(0.20)	—
Loss on sale of Hercules 170	—	0.07	—
Gain on sale of Platform Rig 3	—	—	(0.12)
Gain on Hercules 185 insurance settlement	—	—	(0.18)
Loss on extinguishment of debt	0.13	0.18	0.06
Gain on equity investment	—	(0.09)	—
Tax benefit (a)	—	(0.23)	—
Tax impact of adjustments	—	—	(0.07)
Total adjustments	1.23	0.44	0.39
Adjusted Diluted Earnings (Loss) per Share from Continuing Operations	$(0.12)	$0.27	$(0.40)

Table of Contents

	For the Years Ended December 31,		
	2014	2013	2012
Loss from Continuing Operations attributable to Hercules Offshore, Inc.	$(216,110)	$(26,770)	$(121,000)
Interest expense	99,142	73,248	72,734
Income tax provision (benefit)	8,505	(10,944)	(18,721)
Depreciation and amortization	170,898	151,943	142,329
EBITDA	62,435	187,477	75,342
Adjustments:			
Asset impairment	199,508	114,168	108,216
Net gain on sale of cold-stacked drilling rigs	(22,620)	—	—
Gain on Hercules 265 insurance settlement	—	(31,600)	—
Loss on sale of Hercules 170	—	11,498	—
Gain on sale of Platform Rig 3	—	—	(18,350)
Gain on Hercules 185 insurance settlement	—	—	(27,268)
Loss on extinguishment of debt	19,925	29,295	9,156
Gain on equity investment	—	(14,876)	—
Total adjustments	196,813	108,485	71,754
Adjusted EBITDA	$259,248	$295,962	$147,096

(a) Tax benefit recognized of $37.7 million related to the change in characterization of the Seahawk acquisition for tax purposes from a purchase of assets to a reorganization.

Critical Accounting Policies

Critical accounting policies are those that are important to our results of operations, financial condition and cash flows and require management's most difficult, subjective or complex judgments. Different amounts would be reported under alternative assumptions. We have evaluated the accounting policies used in the preparation of the consolidated financial statements and related notes appearing elsewhere in this annual report. We apply those accounting policies that we believe best reflect the underlying business and economic events, consistent with accounting principles generally accepted in the United States. We believe that our policies are generally consistent with those used by other companies in our industry. We base our 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.

We periodically update the estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment. Projected business and general economic environment are impacted by prices for crude oil and natural gas, which can at times be volatile, such as the recent decline in crude oil and natural gas prices. To the extent prices decline, coupled with the severity and duration of such decline, this may adversely impact the business of our customers, and in turn our business. This could result in changes to estimates used in preparing our financial statements, including the assessment of certain of our assets for impairment.

Our significant accounting policies are summarized in Note 2 to our consolidated financial statements. 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.

Property and Equipment

Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the useful life of the asset, which ranges from 10 to 30 years for our rigs and liftboats. We review our property and equipment for potential impairment when events or changes in circumstances indicate that the carrying value of such

assets may not be recoverable or when reclassifications are made between property and equipment and assets held for sale. Factors that might indicate a potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset, a significant change in the long-lived asset's physical condition, a change in industry conditions or a substantial reduction in cash flows associated with the use of the long-lived asset. For property and equipment held for use, the determination of recoverability is made based on the estimated undiscounted future net cash flows of the related asset or group of assets being

Table of Contents

evaluated. Any actual impairment charges are recorded using an estimate of discounted future cash flows. This evaluation requires us to make judgments regarding long-term forecasts of future revenue and costs. In turn these forecasts are uncertain in that they require assumptions about demand for our services, future market conditions and technological developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific asset groups and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.

Supply and demand are the key drivers of rig and vessel utilization and our ability to contract our rigs and vessels at economical rates. During periods of an oversupply, it is not uncommon for us to have rigs or vessels idled for extended periods of time, which could indicate that an asset group may be impaired. Our rigs and vessels are mobile units, equipped to operate in geographic regions throughout the world and, consequently, we may move rigs and vessels from an oversupplied region to one that is more lucrative and undersupplied when it is economical to do so. As such, our rigs and vessels are considered to be interchangeable within classes or asset groups and accordingly, we perform our impairment evaluation by asset group.

Our estimates, assumptions and judgments used in the application of our property and equipment accounting policies reflect both historical experience and expectations regarding future industry conditions and operations. Using different estimates, assumptions and judgments, especially those involving the useful lives and salvage values of our rigs and liftboats and expectations regarding future industry conditions and operations, would result in different carrying values of assets and results of operations. For example, a prolonged downturn in the drilling industry in which utilization and dayrates were significantly reduced could result in an impairment of the carrying value of our assets.

Useful lives of rigs and vessels are difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and gas exploration and development, changes in market or economic conditions and changes in laws or regulations affecting the drilling industry. We evaluate the remaining useful lives of our rigs and vessels when certain events occur that directly impact our assessment of the remaining useful lives of the rigs and vessels and include changes in operating condition, functional capability and market and economic factors. We also consider major capital upgrades required to perform certain contracts and the long-term impact of those upgrades on the future marketability when assessing the useful lives and salvage values of individual rigs and vessels.

When analyzing our assets for impairment, we separate our marketable assets, those assets that are actively marketed and can be warm stacked or cold stacked for short periods of time depending on market conditions, from our non-marketable assets, those assets that have been cold stacked for an extended period of time or those assets that we currently do not reasonably expect to market in the foreseeable future.

Revenue Recognition

Revenue generated from our contracts is recognized as services are performed, as long as collectability is reasonably assured. For certain contracts, we may receive lump-sum fees for the mobilization of equipment and personnel. Mobilization fees received and costs incurred to mobilize a rig from one location to another are recognized as services are performed over the term of the related drilling contract. For certain contracts, we may receive fees from our customers for capital improvements to our rigs. Such fees are deferred and recognized as services are performed over the term of the related contract. We capitalize such capital improvements and depreciate them over the useful life of the asset. Certain of our contracts also allow us to recover additional direct costs, such as demobilization costs, additional labor and additional catering costs and under most of our liftboat contracts, we receive a variable rate for reimbursement of costs such as catering, oil, rental equipment and other items. Revenue for the recovery or reimbursement of these costs is recognized when the costs are incurred.

Accrued Self-Insurance Reserves

We are self-insured up to certain retention limits for maritime employer's liability claims and protection and indemnity claims. The amounts in excess of the self-insured levels are fully insured, up to a limit. Self-insurance reserves are based on estimates of (i) claims reported and (ii) loss amounts incurred but not reported. Reserves for reported claims are estimated by our internal risk department by evaluating the facts and circumstances of each claim and are adjusted from time to time based upon the status of each claim and our historical experience with similar claims. Reserves for loss amounts incurred but not reported are estimated by our third-party actuary and include provisions for expected development on claims reported due to information not yet received and expected development on claims to be

reported in the future but which have occurred prior to the accounting date. As of December 31, 2014 and 2013, there was $24.5 million and $25.8 million in accrued self-insurance reserves, respectively, which is included in Accrued Liabilities on the Consolidated Balance Sheets. The actual outcome of any claim could differ significantly from estimated amounts.

Table of Contents

Income Taxes

Our net income tax expense or benefit is determined based on the mix of domestic and international pre-tax earnings or losses, respectively, as well as the tax jurisdictions in which we operate. We operate in multiple countries through various legal entities. As a result, we are subject to numerous domestic and foreign tax jurisdictions and are taxed on various bases: income before tax, deemed profits (which is generally determined using a percentage of revenue rather than profits), and withholding taxes based on revenue. The calculation of our tax liabilities involves consideration of uncertainties in the application and interpretation of complex tax regulations in our operating jurisdictions. Changes in tax laws, regulations, agreements and treaties, or our level of operations or profitability in each taxing jurisdiction could have an impact upon the amount of income taxes that we provide during any given year.

Stock-Based Compensation

We recognize compensation cost for all share-based payments awarded in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, Compensation — Stock Compensation ("ASC 718") and in accordance with such we record the grant date fair value of time-based restricted stock awarded as compensation expense using a straight-line method over the requisite service period. Performance based awards are recognized using the accelerated method over the requisite service period. The fair value of our time-based restricted stock and performance based grants that are share settled is based on the closing price of our common stock on the date of grant. For those performance based grants that contain a market performance condition, the Monte Carlo simulation is used for valuation as of the date of grant. All of our cash settled awards are recorded as a liability at fair value, which is remeasured at the end of each reporting period, over the requisite service period. Our cash settled liability awards that contain market performance conditions are valued using a Monte Carlo simulation. We also estimate future forfeitures and related tax effects. Our estimate of compensation expense requires a number of assumptions and changes to those assumptions could result in different valuations for individual share awards.

Our estimate of future expense relating to restricted stock and liability-based awards granted through December 31, 2014 as well as the remaining vesting period over which the associated expense is to be recognized is presented in the table below; however, due to the uncertainty in the level of awards to be granted in the future as well as changes in the fair value of liability-based awards, these amounts are estimates and subject to change.

	December 31, 2014	
	Unrecognized Compensation Expense	Weighted Average Remaining Term
	(in thousands)	(in years)
Time-based Restricted Stock Awards	$5,654	1.3
Objective-based Awards (share settled)	5,764	1.5
Objective-based Awards (cash settled)	119	1.9

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. Most of our domestic offshore customers are largely focused on drilling activities that contain high concentrations of crude oil and condensates, primarily due to the disparity between the price of crude oil and natural gas. Despite the decline in the price of crude oil since mid-2014, we still expect this condition to continue as long as such pricing disparity persist.

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 22 rigs as of February 20, 2015, excluding rigs scheduled to depart the region. From time to time, jackup

Table of Contents

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. It is uncertain whether PEMEX will re-contract these rigs, and if not, to where these rigs will migrate.

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 14 rigs on February 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 are executing on a number of cost saving measures, including our decision to cold stack five domestic rigs during the first quarter of 2015, which is in addition to the four rigs cold stacked during 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 February 20, 2015, there are approximately 132 jackup rigs under construction, on order and planned for delivered 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 volatile. We believe this has been driven by budgetary constraints with major customers primarily in Nigeria. We expect continued volatility in utilization at least through mid-year 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 and regional conflicts, particularly in West Africa. In the Middle East, we expect demand for liftboats to be supported by construction and well servicing activity levels. This is partially tempered by our need to perform a capital project on one of the three vessels in the region, which will take the vessel out of service through approximately mid-year 2015.

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.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Sources and uses of cash for the years ended 2014 and 2013 are as follows (in millions):

	2014	2013
Net Cash Provided by Operating Activities	$114.7	$182.5
Net Cash Provided by (Used in) Investing Activities:		
Acquisition of Assets, Net of Cash Acquired	—	(201.0)
Capital Expenditures	(147.5)	(545.0)
Insurance Proceeds Received	9.1	51.4
Proceeds from Sale of Assets, Net	35.1	117.4
Other	1.5	4.5
Total	(101.8)	(572.7)
Net Cash Provided by (Used in) Financing Activities:		
Long-term Debt Borrowings	300.0	700.0
Redemption of 7.125% Senior Secured Notes	(300.0)	—
Redemption of 3.375% Convertible Senior Notes	—	(61.3)
Redemption of 10.5% Senior Notes	—	(300.0)
Payment of Debt Issuance Costs	(3.9)	(10.6)
Other	0.5	1.3
Total	(3.4)	329.4
Net Increase (Decrease) in Cash and Cash Equivalents	$9.5	$(60.8)

Insurance Proceeds

We intend to use the proceeds received from insurance settlements to reinvest in our existing fleet or for growth opportunities.

Sources of Liquidity and Financing Arrangements

Our liquidity is comprised of cash on hand, cash from operations and availability under our revolving credit facility. We also maintain a shelf registration statement covering the future issuance from time to time of various types of securities, including debt and equity securities. If we issue any debt securities off the shelf or otherwise incur debt, in certain instances we would be required to allocate the proceeds of such debt to repay or refinance existing debt. We currently believe we will have adequate liquidity to fund our operations. However, to the extent we do not generate sufficient cash from operations we may need to raise additional funds through debt, equity offerings or the sale of assets. Furthermore, we may need to raise additional funds through debt or equity offerings or asset sales to refinance existing debt, to fund capital expenditures or for general corporate purposes.

Cash Requirements and Contractual Obligations

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

Senior Secured Credit Agreement

At December 31, 2011, we previously had a $592.9 million credit agreement, consisting of a $452.9 million term loan facility and a $140.0 million revolving credit facility. On April 3, 2012, we repaid in full all outstanding indebtedness under the prior secured credit facilities, and the liens securing such obligations were terminated. There were no termination penalties incurred by us in connection with the termination of the prior secured credit facility.

On April 3, 2012, we entered into a credit agreement which as amended on July 8, 2013 (the “Credit Agreement”) governs the senior secured revolving credit facility (the “Credit Facility”). The Credit Agreement provides for a $150.0 million senior secured revolving credit facility, with a $50.0 million sublimit for the issuance of letters of credit. As of December 31, 2014, no amounts were outstanding and $7.4 million in letters of credit had been issued under the Credit Facility, therefore, the remaining availability under this facility was $142.6 million. All borrowings under the Credit Facility mature on July 8, 2018. We incurred costs of $1.1 million in 2013 related to the amendment of the Credit Agreement.

Borrowings under the Credit Facility bear interest, at our option, at either (i) the Alternate Base Rate (“ABR”) (the

46

Table of Contents

highest of the administrative agent's corporate base rate of interest, the federal funds rate plus 0.5%, or the one-month Eurodollar rate (as defined in the Credit Agreement) plus 1%), plus an applicable margin that ranges between 1.5% and 3.0%, depending on our leverage ratio, or (ii) the Eurodollar rate plus an applicable margin that ranges between 2.5% and 4.0%, depending on our leverage ratio. We pay a per annum fee on all letters of credit issued under the Credit Facility equal to the applicable margin for loans accruing interest based on the Eurodollar rate, and we pay a commitment fee of 0.50% per annum on the unused availability under the Credit Facility. During any period of time that outstanding letters of credit under the Credit Facility exceed $10 million or there are any revolving borrowings outstanding under the Credit Facility, we will have to maintain compliance with a maximum secured leverage ratio (as defined in the Credit Agreement, being generally computed as the ratio of secured indebtedness to consolidated cash flow). The maximum secured leverage ratio is 3.50 to 1.00. As of December 31, 2014, we were in compliance with all covenants under our revolving credit facility.

Our obligations under the Credit Agreement are guaranteed by substantially all of our current domestic subsidiaries (collectively, the “Guarantors”), and the obligations of the Company and the Guarantors are secured by liens on substantially all of the vessels owned by the Company and the Guarantors, together with certain accounts receivable, equity of subsidiaries, equipment and other assets.

8.75% Senior Notes due 2021

On July 8, 2013, we completed the issuance and sale of $400.0 million aggregate principal amount of senior notes at a coupon rate of 8.75% ("8.75% Senior Notes") with maturity in July 2021. These notes were sold at par and we received net proceeds from the offering of the notes of approximately $393.0 million after deducting the bank fees and estimated offering expenses. The net proceeds from this offering, together with cash on hand (including the proceeds of approximately $103.9 million we received from the sales of our inland barge rigs, domestic liftboats and related assets), were used to fund our acquisition of Discovery shares, the final shipyard payments totaling $333.9 million for Hercules Triumph and Hercules Resilience, related capital expenditures, as well as general corporate purposes. Interest on the notes is payable semi-annually in arrears on January 15 and July 15 of each year. These notes are guaranteed by each of the Guarantors that guarantee our obligations under our Credit Agreement.

7.5% Senior Notes due 2021

On October 1, 2013, we completed the issuance and sale of $300.0 million aggregate principal amount of senior notes at a coupon rate of 7.5% ("7.5% Senior Notes") with maturity in October 2021. These notes were sold at par and we received net proceeds from the offering of the notes of approximately $294.5 million after deducting the bank fees and estimated offering expenses. Interest on the notes is payable semi-annually in arrears on April 1 and October 1 of each year. These notes are guaranteed by each of the Guarantors that guarantee our obligations under our Credit Agreement.

6.75% Senior Notes due 2022

On March 26, 2014, we completed the issuance and sale of $300.0 million aggregate principal amount of senior notes at a coupon rate of 6.75% ("6.75% Senior Notes") with maturity in April 2022. These notes were sold at par and we received net proceeds from the offering of the notes of approximately $294.8 million after deducting bank fees and estimated offering expenses. Interest on the notes will accrue from and including March 26, 2014 at a rate of 6.75% per year and is payable semi-annually in arrears on April 1 and October 1 of each year. These notes are guaranteed by each of the Guarantors that guarantee our obligations under our Credit Agreement.

Prior to April 1, 2017, we may redeem the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to 106.75% of the aggregate principal amount plus accrued and unpaid interest; provided, that (i) after giving effect to any such redemptions, at least 65% of the notes originally issued would remain outstanding immediately after such redemption and (ii) we make such redemption not more than 180 days after consummation of such equity offering. In addition, prior to April 1, 2017, we may redeem all or part of the notes at a price equal to 100% of the aggregate principal amount of the notes to be redeemed, plus the applicable premium, as defined in the indenture, and accrued and unpaid interest.

On or after April 1, 2017, we may redeem all or part of the notes at the redemption prices set forth below, together with accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning April 1 of the years indicated:

Year	Optional Redemption Price	
2017	105.063	%
2018	103.375	%
2019	101.688	%
2020 and thereafter	100.000	%

Table of Contents

If we experience certain kinds of changes of control, holders of the notes will be entitled to require us to purchase all or any portion of the notes for a cash price equal to 101.0% of the principal amount of the applicable notes, plus accrued and unpaid interest, if any, to the date of purchase. Furthermore, in certain circumstances following an asset sale (as defined in the indenture), we may be required to use the excess proceeds to offer to repurchase the notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

10.25% Senior Notes due 2019

On April 3, 2012, we completed the issuance and sale of $200.0 million aggregate principal amount of senior notes at a coupon rate of 10.25% (“10.25% Senior Notes”) with maturity in April 2019. These notes were sold at par and we received net proceeds from the offering of the notes of $195.4 million after deducting the initial purchasers' discounts and offering expenses. Interest on the notes is payable in cash semi-annually in arrears on April 1 and October 1 of each year. These notes are guaranteed by each of the Guarantors that guarantee our obligations under our Credit Agreement.

3.375% Convertible Senior Notes due 2038

In 2008, we issued $250.0 million convertible senior notes at a coupon rate of 3.375% (“3.375% Convertible Senior Notes”) with a maturity in June 2038. As of December 31, 2014, $7.4 million notional amount of the $250.0 million 3.375% Convertible Senior Notes was outstanding.

Since June 1, 2013, interest on the 3.375% Convertible Senior Notes accretes to principal at an annual yield to maturity of 3.375% per year. We will also pay contingent interest during any six-month interest period commencing June 1, 2013, 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 our common stock (“Common Stock”) at a conversion rate of 19.9695 shares of Common Stock per $1,000 original principal amount of notes, which is equal to a conversion price of approximately $50.08 per share. The conversion rate is subject to adjustment in certain circumstances. Upon conversion of a note, a holder will receive, at our election, shares of Common Stock, cash or a combination of cash and shares of Common Stock. At December 31, 2014, the number of conversion shares potentially issuable in relation to our 3.375% Convertible Senior Notes was 0.1 million. We may redeem the 3.375% Convertible Senior Notes at our option and holders of the notes will have the right to require us to repurchase the notes on June 1, 2018 and certain dates thereafter or on the occurrence of a fundamental change.

We determined that upon maturity or redemption, we have the intent and ability to settle the principal amount of our 3.375% Convertible Senior Notes in cash, and any additional conversion consideration spread (the excess of conversion value over face value) in shares of our Common Stock.

In May 2012, we repurchased a portion of the 3.375% Convertible Senior Notes and the settlement consideration was allocated to the extinguishment of the liability component in an amount equal to the fair value of that component immediately prior to extinguishment with the difference between this allocation and the net carrying amount of the liability component and unamortized debt issuance costs recognized as a gain or loss on debt extinguishment. If there would have been any remaining settlement consideration, it would have been allocated to the reacquisition of the equity component and recognized as a reduction of equity.

On May 1, 2013, we made an offer to purchase all of the outstanding notes in accordance with our repurchase obligation under the indenture and on June 1, 2013 repurchased $61.3 million aggregate principal amount of the 3.375% Convertible Senior Notes pursuant to the terms of the optional put repurchase offer.

Retirement of 10.5% Senior Notes

In 2009, we issued $300.0 million of senior notes at a coupon rate of 10.5% ("10.5% Senior Notes") with maturity in October 2017. On September 17, 2013, we commenced a cash tender offer (the "Tender offer") for any and all of the $300.0 million outstanding aggregate principal amount of our 10.5% Senior Notes. Senior notes totaling approximately $253.6 million were settled on October 1, 2013 for $268.5 million using a portion of the proceeds from the issuance of the 7.5% Senior Notes. Additionally, on November 4, 2013 we redeemed all $46.4 million of the remaining outstanding 10.5% Senior Notes for approximately $48.8 million using the remaining proceeds from the 7.5% Senior Notes offering, together with cash on hand.

Retirement of 7.125% Senior Secured Notes

In 2012, we 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 we commenced a cash tender offer (the "Tender offer") for any and all of the $300.0 million outstanding aggregate principal amount of our 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 issuance of the 6.75% Senior Notes. Additionally, on April 29, 2014, we 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.

Table of Contents

Other Indenture Provisions

The Credit Agreement as well as the indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes, 10.25% Senior Notes and 3.375% Convertible Senior Notes contain customary events of default and also contain a provision under which an event of default by the Company or by any restricted subsidiary on any other indebtedness exceeding $25.0 million would be considered an event of default under the Credit Agreement and indentures if such default: a) is caused by failure to pay the principal at final maturity, or b) results in the acceleration of such indebtedness prior to maturity.

The Credit Agreement as well as the indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes and 10.25% Senior Notes contain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred stock;
- pay dividends or make other distributions;
- make other restricted payments or investments;
- sell assets or use the proceeds from asset sales;
- create liens;
- enter into agreements that restrict dividends and other payments by restricted subsidiaries;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all of our assets.

Loss on Extinguishment of Debt

During the years ended December 31, 2014, 2013 and 2012, we incurred the following charges which are included in Loss on Extinguishment of Debt in the Consolidated Statements of Operations:

- In April 2012 and in connection with the termination of the prior secured credit facility, we recognized a pretax charge of $1.4 million, $0.9 million, net of tax, for the write off of unamortized issuance costs related to the term loan;
- In April 2012, we recognized a pretax charge of $6.4 million, $4.2 million net of tax, related to our debt refinancing;
- In May 2012, we repurchased $27.6 million aggregate principal amount of the 3.375% Convertible Senior Notes, resulting in a loss of $1.3 million, or $0.9 million, net of tax;
- During the fourth quarter of 2013, we incurred a pretax charge of $29.3 million, $29.3 million net of tax, consisting of a $17.3 million call premium, $4.8 million unamortized debt discount costs and $4.2 million unamortized debt issuance costs, all related to the redemption of the 10.5% Senior Notes, as well as approximately $3.0 million of bank fees related to the issuance of the 7.5% Senior Notes;
- In March 2014, we incurred a pretax charge of $15.2 million, $15.2 million net of tax, 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; and
- In April 2014, we incurred a pretax charge of $4.8 million, $4.8 million net of tax, 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.

Table of Contents

The fair value of our 3.375% Convertible Senior Notes, 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes, 10.25% Senior Notes and 7.125% Senior Secured Notes is estimated based on quoted prices in active markets. The fair value of our 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. The following table provides the carrying value and fair value of our long-term debt instruments:

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
8.75% Senior Notes, due July 2021	$400.0	$191.0	$400.0	$447.5
7.5% Senior Notes, due October 2021	300.0	135.8	300.0	317.3
6.75% Senior Notes, due April 2022	300.0	132.8	—	—
7.125% Senior Secured Notes, previously due April 2017	—	—	300.0	320.1
10.25% Senior Notes, due April 2019	200.0	111.4	200.0	226.8
3.375% Convertible Senior Notes, due June 2038	7.4	6.5	7.2	7.1
7.375% Senior Notes, due April 2018	3.5	1.9	3.5	3.5

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, 2014, 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, 2015. We paid $42.9 million in the second quarter of 2014 for our insurance renewals.

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:

Table of Contents

Events of Coverage	Coverage Amounts and Deductibles
- Total maximum amount of hull and machinery coverage;	- $1.6 billion;
- Deductible for events that are not caused by a U.S. Gulf of Mexico named windstorm;	- $5.0 million and $1.0 million per occurrence for drilling rigs and liftboats, respectively;
- Deductible for events that are caused by a U.S. Gulf of Mexico named windstorm;	- $25.0 million;
- Maritime employer liability (crew liability);	- $5.0 million self-insured retention with excess liability coverage up to $200.0 million;
- Personal injury and death of third parties;	- Primary and excess coverage of $25.0 million per occurrence with additional excess liability coverage up to $200.0 million, subject to a $250,000 per occurrence deductible;
- Limitations for coverage for losses caused in U.S. Gulf of Mexico named windstorms; and	- Annual aggregate limit of liability of $75.0 million for property damage and liability coverage, including removal of wreck liability coverage; and
- Vessel pollution emanating from our vessels and drilling rigs.	- Primary limits of $5.0 million up to $17.1 million per occurrence and excess liability coverage up to $200.0 million.

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. The policies are subject to exclusions, limitations, deductibles, self-insured retention and other conditions, including the requirement for Company gross negligence or willful misconduct.

Hercules Triumph and Hercules Resilience Marine Package Coverage

We have separate primary marine packages for Hercules Triumph and Hercules Resilience that each 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 and excess 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.

Capital Expenditures

We currently expect total capital expenditures during 2015 to approximate $120.0 million to $130.0 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.

Table of Contents

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 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.

The following table summarizes our contractual obligations and contingent commitments by period as of December 31, 2014:

	Payments due by Period				
Contractual Obligations and Contingent Commitments (c)	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
	(In thousands)				
Long-term debt obligations	$—	$—	$211,815	$1,000,000	$1,211,815
Interest on debt and notes payable (a)	99,646	199,110	186,380	165,625	650,761
Purchase obligations (b)	18,098	—	—	—	18,098
Rig construction contract	23,600	188,800	—	—	212,400
Letters of credit and bank guarantees	7,505	—	—	—	7,505
Management compensation obligations	5,128	5,128	—	—	10,256
Operating lease obligations	3,491	5,872	—	—	9,363
Other	2,756	—	—	—	2,756
Total contractual obligations	$160,224	$398,910	$398,195	$1,165,625	$2,122,954

(a) Estimated interest is based on the rates associated with the respective fixed rate instrument.

(b) A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on the company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. These amounts are primarily comprised of open purchase order commitments to vendors and subcontractors.

(c) Tax liabilities of $3.9 million have been excluded from the table above as a reasonably reliable estimate of the period of cash settlement cannot be made.

Off-Balance Sheet Arrangements

Guarantees

Substantially all of our domestic subsidiaries guarantee the obligations under the Credit Agreement, the 8.75% Senior Note, the 7.5% Senior Notes, the 6.75% Senior Notes and the 10.25% Senior Notes.

Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). The amendments in this ASU provide guidance on presentation of unrecognized tax benefits and are expected to reduce diversity in practice and better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this ASU are effective prospectively for interim and annual periods beginning after December 15, 2013, with early adoption and retrospective application permitted. We adopted ASU 2013-11 as of January 1, 2014 with no material impact on our consolidated financial statements.

In April 2014, the FASB issued 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

Table of Contents

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. Early adoption is permitted for disposals that have not been previously reported. We do not expect the adoption of this standard to have a material impact on our 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. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those years, using either a full or a modified retrospective application approach. We are in the process of evaluating the impact on our 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. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 annual report 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 levels of indebtedness, 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.

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 this annual report and the following:

- 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;

Table of Contents

- 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are currently exposed to market risk from changes in interest rates. From time to time, we may enter into derivative financial instrument transactions to manage or reduce our market risk, but we do not enter into derivative transactions for speculative purposes. A discussion of our market risk exposure in financial instruments follows.

Interest Rate Exposure

We are subject to interest rate risk on our fixed-interest rate borrowings. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at a higher rate.

Table of Contents

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Stockholders of Hercules Offshore, Inc.:

We have audited the accompanying consolidated balance sheets of Hercules Offshore, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hercules Offshore, Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hercules Offshore, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas
March 2, 2015

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Stockholders of Hercules Offshore, Inc.:

We have audited Hercules Offshore, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Hercules Offshore, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hercules Offshore, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hercules Offshore, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2014 of Hercules Offshore, Inc. and subsidiaries, and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas
March 2, 2015

Table of Contents

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

	December 31, 2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$207,937	$198,406
Accounts Receivable, Net	166,359	220,139
Prepaids	19,585	20,395
Current Deferred Tax Asset	4,461	10,876
Other	5,955	17,363
	404,297	467,179
Property and Equipment, Net	1,574,749	1,808,526
Other Assets, Net	23,361	25,743
	$2,002,407	$2,301,448
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$52,952	$80,018
Accrued Liabilities	66,090	81,500
Interest Payable	32,008	33,067
Insurance Notes Payable	—	9,568
Other Current Liabilities	13,406	35,735
	164,456	239,888
Long-term Debt	1,210,919	1,210,676
Deferred Income Taxes	4,147	14,452
Other Liabilities	7,854	12,732
Commitments and Contingencies		
Equity:		
Common Stock, $0.01 Par Value; 300,000 Shares Authorized; 163,540 and 162,144 Shares Issued, Respectively; 160,818 and 159,761 Shares Outstanding, Respectively	1,635	1,621
Capital in Excess of Par Value	2,179,838	2,170,811
Treasury Stock, at Cost, 2,722 and 2,383 Shares, Respectively	(56,765)	(55,165)
Retained Deficit	(1,509,677)	(1,293,567)
	615,031	823,700
	$2,002,407	$2,301,448

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

Table of Contents

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

	Year Ended December 31,		
	2014	2013	2012
Revenue	$900,251	$858,300	$618,225
Costs and Expenses:			
Operating Expenses	543,236	461,332	370,096
Asset Impairment	199,508	114,168	108,216
Depreciation and Amortization	170,898	151,943	142,329
General and Administrative	75,108	79,425	57,311
	988,750	806,868	677,952
Operating Income (Loss)	(88,499)	51,432	(59,727)
Other Income (Expense):			
Interest Expense	(99,142)	(73,248)	(72,734)
Loss on Extinguishment of Debt	(19,925)	(29,295)	(9,156)
Gain on Equity Investment	—	14,876	—
Other, Net	(39)	(1,518)	1,896
Loss Before Income Taxes	(207,605)	(37,753)	(139,721)
Income Tax Benefit (Provision)	(8,505)	10,944	18,721
Loss from Continuing Operations	(216,110)	(26,809)	(121,000)
Loss from Discontinued Operations, Net of Taxes	—	(41,308)	(6,004)
Net Loss	(216,110)	(68,117)	(127,004)
Loss attributable to Noncontrolling Interest	—	39	—
Net Loss attributable to Hercules Offshore, Inc.	$(216,110)	$(68,078)	$(127,004)
Net Loss attributable to Hercules Offshore, Inc. Per Share:			
Basic and Diluted:			
Loss from Continuing Operations	$(1.35)	$(0.17)	$(0.79)
Loss from Discontinued Operations	—	(0.26)	(0.04)
Net Loss	$(1.35)	$(0.43)	$(0.83)
Basic and Diluted Weighted Average Shares Outstanding	160,598	159,501	153,722

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

Table of Contents

HERCULES OFFSHORE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	December 31, 2014		December 31, 2013		December 31, 2012	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock:						
Balance at Beginning of Period	162,144	$1,621	160,708	$1,607	139,798	$1,398
Issuance of Common Stock, Net	—	—	—	—	20,000	200
Other	1,396	14	1,436	14	910	9
Balance at End of Period	163,540	1,635	162,144	1,621	160,708	1,607
Capital in Excess of Par Value:						
Balance at Beginning of Period	—	2,170,811	—	2,159,744	—	2,057,824
Issuance of Common Stock, Net	—	—	—	—	—	96,496
Compensation Expense Recognized	—	8,348	—	9,960	—	6,243
Excess Tax Benefit (Deficit) From Stock-Based Arrangements, Net	—	548	—	825	—	(1,106)
Other	—	131	—	282	—	287
Balance at End of Period	—	2,179,838	—	2,170,811	—	2,159,744
Treasury Stock:						
Balance at Beginning of Period	(2,383)	(55,165)	(2,080)	(53,100)	(1,899)	(52,184)
Repurchase of Common Stock	(339)	(1,600)	(303)	(2,065)	(181)	(916)
Balance at End of Period	(2,722)	(56,765)	(2,383)	(55,165)	(2,080)	(53,100)
Retained Deficit:						
Balance at Beginning of Period	—	(1,293,567)	—	(1,225,489)	—	(1,098,485)
Net Loss attributable to Hercules Offshore, Inc.	—	(216,110)	—	(68,078)	—	(127,004)
Balance at End of Period	—	(1,509,677)	—	(1,293,567)	—	(1,225,489)
Total Hercules Offshore, Inc. Stockholders' Equity	160,818	615,031	159,761	823,700	158,628	882,762
Noncontrolling Interest:						
Balance at Beginning of Period	—	—	—	—	—	—
Acquisition of Interest in Discovery	—	—	—	26,448	—	—
Acquisition of Noncontrolling Interest in Discovery	—	—	—	(26,409)	—	—
Loss Attributable to Noncontrolling Interest	—	—	—	(39)	—	—
Balance at End of Period	—	—	—	—	—	—
Total Equity	160,818	$615,031	159,761	$823,700	158,628	$882,762

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

Table of Contents

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

	Year Ended December 31,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net Loss	$(216,110)	$(68,078)	$(127,004)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	170,898	162,841	166,426
Stock-Based Compensation Expense	8,348	9,960	6,243
Deferred Income Taxes	(7,691)	(30,940)	(33,236)
Provision (Benefit) for Doubtful Accounts Receivable	5,627	642	(8,847)
(Gain) Loss on Disposal of Assets, Net	(22,598)	7,355	(33,396)
Asset Impairment	199,508	158,538	108,216
Gain on Equity Investment	—	(14,876)	—
Gain on Insurance Settlement	—	(31,600)	(30,668)
Non-Cash Portion of Loss on Extinguishment of Debt	1,900	9,012	2,738
Other	2,910	8,319	5,520
(Increase) Decrease in Operating Assets -			
Accounts Receivable	48,153	(53,643)	(7,901)
Prepaid Expenses and Other	2,323	15,214	11,646
Increase (Decrease) in Operating Liabilities -			
Accounts Payable	(27,066)	20,357	9,976
Insurance Notes Payable	(9,568)	(31,462)	(26,193)
Other Current Liabilities	(36,317)	17,753	28,453
Other Liabilities	(5,604)	3,078	(3,610)
Net Cash Provided by Operating Activities	114,713	182,470	68,363
Cash Flows from Investing Activities:			
Acquisition of Assets, Net of Cash Acquired	—	(200,957)	(40,000)
Capital Expenditures	(147,522)	(544,987)	(138,605)
Cash Paid for Equity Investment	—	—	(4,288)
Insurance Proceeds Received	9,067	51,430	54,139
Proceeds from Sale of Assets, Net	35,135	117,350	72,897
Other	1,479	4,501	3,588
Net Cash Used in Investing Activities	(101,841)	(572,663)	(52,269)
Cash Flows from Financing Activities:			
Long-term Debt Borrowings	300,000	700,000	500,000
Long-term Debt Repayments	—	—	(452,909)
Redemption of 7.125% Senior Secured Notes	(300,000)	—	—
Redemption of 3.375% Convertible Senior Notes	—	(61,274)	(27,606)
Redemption of 10.5% Senior Notes	—	(300,000)	—
Common Stock Issuance	—	—	96,696
Payment of Debt Issuance Costs	(3,914)	(10,643)	(7,717)
Other	573	1,323	284
Net Cash Provided by (Used in) Financing Activities	(3,341)	329,406	108,748
Net Increase (Decrease) in Cash and Cash Equivalents	9,531	(60,787)	124,842
Cash and Cash Equivalents at Beginning of Period	198,406	259,193	134,351

Cash and Cash Equivalents at End of Period	$207,937	$198,406	$259,193

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

Table of Contents

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

1. Nature of Business

Organization

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 13). At December 31, 2014, the Company operated a fleet of 33 jackup rigs, including one rig under construction, 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.

Drilling Contract Award and Rig Construction Contract

In May 2014, the Company signed a five-year drilling contract with Maersk Oil North Sea UK Limited for a newbuild jackup rig, Hercules Highlander, the Company will own and operate. Contract commencement is expected in mid-2016. In support of the drilling contract, in May 2014, the Company signed a rig construction contract with Jurong Shipyard Pte Ltd ("JSL") in Singapore. This High Specification, Harsh Environment (HSHE) 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 rig is expected to be delivered in April 2016 (See Note 14).

Recent Events

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 volatile, which the Company believes has been driven by budgetary constraints with major customers primarily in Nigeria.

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 is in the process of seeking a basis for continuing the Hercules 261 contract. There will be no termination fee payable to the Company under the contract as a result of such termination (See Note 17).

The Company’s immediate capital resources to fund and grow operations come from cash on hand, cash from operations and availability under its revolving credit facility. 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 over the past six months 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. The Company believes these steps will enhance its liquidity and further believes, based upon the current business environment and activity levels, it will have adequate liquidity to fund its operations through December 31, 2015; however, the Company cannot predict how an extended period of low commodity prices will affect its operations and liquidity levels.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries from the date a majority controlling interest was acquired (See Note 5). All intercompany account balances and transactions have been eliminated.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management makes 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 revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts,

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.

Cash and Cash Equivalents

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

Revenue Recognition

Revenue generated from the Company’s contracts is 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 location to another are recognized as services are performed over the term of the related drilling contract. 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. Certain of the Company's contracts also allow us to recover additional direct costs, such as demobilization costs, additional labor and additional catering costs and under most of our liftboat contracts, we receive a variable rate for reimbursement of costs such as catering, oil, rental equipment and other items. Revenue for the recovery or reimbursement of these costs is recognized when the costs are incurred.

Stock-Based Compensation

The Company recognizes compensation cost for all share-based payments awarded in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, Compensation — Stock Compensation (“ASC 718”) and in accordance with such the Company records the grant date fair value of time-based restricted stock awarded as compensation expense using a straight-line method over the requisite service period. Performance based awards are recognized using the accelerated method over the requisite service period. The fair value of the Company’s time-based restricted stock and performance based grants that are share settled is based on the closing price of the Company’s common stock on the date of grant. For those performance based grants that contain a market performance condition, the Monte Carlo simulation is used for valuation as of the date of grant. All of the Company’s cash settled awards are recorded as a liability at fair value, which is remeasured at the end of each reporting period, over the requisite service period. The Company’s cash settled liability awards that contain market performance conditions are valued using a Monte Carlo simulation. The Company also estimates future forfeitures and related tax effects. The Company’s estimate of compensation expense requires a number of assumptions and changes to those assumptions could result in different valuations for individual share awards.

Due to the uncertainty in the level of awards to be granted in the future as well as changes in the fair value of liability-based awards, the Company's estimate of future expense relating to restricted stock and liability-based awards granted through December 31, 2014 as well as the remaining vesting period over which the associated expense is to be recognized are estimates and subject to change.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the historical carrying amount net of write-offs and the allowance for doubtful accounts. 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. The Company establishes an allowance for doubtful accounts based on the actual amount it believes is not collectable. The Company had an allowance of $5.7 million and $0.9 million at December 31, 2014 and 2013, respectively.

Business Combinations

The Company accounted for the 2013 acquisition of Discovery as a business combination (See Note 5).

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the useful lives of the assets. Depreciation of leasehold improvements is computed utilizing the straight-line method over the lease term or life of the asset, whichever is shorter.

The useful lives of property and equipment for the purposes of computing depreciation are as follows:

	Years
Drilling rigs and marine equipment (salvage value of 10%)	10–30
Drilling machinery and equipment	2–12
Computer equipment	3–7
Other	3–20

The carrying value of long-lived assets, principally property and equipment, is reviewed for potential impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable or when reclassifications are made between property and equipment and assets held for sale. Factors that might indicate a potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset, a significant change in the long-lived asset's physical condition, a change in industry conditions or a substantial reduction in cash flows associated with the use of the long-lived asset. For property and equipment held for use, the determination of recoverability is made based upon the estimated undiscounted future net cash flows of the related asset or group of assets being evaluated. Actual impairment charges are recorded using an estimate of discounted future cash flows. This evaluation requires the Company to make judgments regarding long-term forecasts of future revenue and costs. In turn these forecasts are uncertain in that they require assumptions about demand for the Company's services, future market conditions and technological developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific asset groups and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.

Supply and demand are the key drivers of rig and vessel utilization and the Company's ability to contract its rigs and vessels at economical rates. During periods of an oversupply, it is not uncommon for the Company to have rigs or vessels idled for extended periods of time, which could indicate that an asset group may be impaired. The Company's rigs and vessels are mobile units, equipped to operate in geographic regions throughout the world and, consequently, the Company may move rigs and vessels from an oversupplied region to one that is more lucrative and undersupplied when it is economical to do so. As such, the Company's rigs and vessels are considered to be interchangeable within classes or asset groups and accordingly, the Company performs its impairment evaluation by asset group.

The Company's estimates, assumptions and judgments used in the application of its property and equipment accounting policies reflect both historical experience and expectations regarding future industry conditions and operations. Using different estimates, assumptions and judgments, especially those involving the useful lives and salvage values of the Company's rigs and liftboats and expectations regarding future industry conditions and operations, would result in different carrying values of assets and results of operations. For example, a prolonged downturn in the drilling industry in which utilization and dayrates were significantly reduced could result in an impairment of the carrying value of the Company's assets.

Useful lives of rigs and vessels are difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and gas exploration and development, changes in market or economic conditions and changes in laws or regulations affecting the drilling industry. The Company evaluates the remaining useful lives of its rigs and vessels when certain events occur that directly impact its assessment of the remaining useful lives of the rigs and vessels and include changes in operating condition, functional capability and market and economic factors. The Company also considers major capital upgrades required to perform certain contracts and the long-term impact of those upgrades on the future marketability when assessing the useful lives and salvage values of individual rigs and vessels.

When analyzing its assets for impairment, the Company separates its marketable assets, those assets that are actively marketed and can be warm stacked or cold stacked for short periods of time depending on market conditions, from its

non-marketable assets, those assets that have been cold stacked for an extended period of time or those assets that the Company currently does not reasonably expect to market in the foreseeable future.

Accrued Self-Insurance Reserves

The Company is self-insured up to certain retention limits for maritime employer's liability claims and protection and indemnity claims. The amounts in excess of the self-insured levels are fully insured, up to a limit. Self-insurance reserves are based on estimates of (i) claims reported and (ii) loss amounts incurred but not reported. Reserves for reported claims are

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

estimated by the Company's internal risk department by evaluating the facts and circumstances of each claim and are adjusted from time to time based upon the status of each claim and the Company's historical experience with similar claims. Reserves for loss amounts incurred but not reported are estimated by the Company's third-party actuary and include provisions for expected development on claims reported due to information not yet received and expected development on claims to be reported in the future but which have occurred prior to the accounting date. As of December 31, 2014 and 2013, there was $24.5 million and $25.8 million in accrued self-insurance reserves, respectively, which is included in Accrued Liabilities on the Consolidated Balance Sheets. The actual outcome of any claim could differ significantly from estimated amounts.

Income Taxes

The Company uses the liability method for determining its income taxes. The Company’s income tax provision is based upon the tax laws and rates in effect in the countries in which the Company’s operations are conducted and income is earned. The income tax rates imposed and methods of computing taxable income in these jurisdictions vary substantially. The Company’s effective tax rate is expected to fluctuate from year to year as operations are conducted in different taxing jurisdictions and the amount of pre-tax income fluctuates. Current income tax expense reflects an estimate of the Company’s income tax liability for the current year, withholding taxes, changes in prior year tax estimates as returns are filed, or from tax audit adjustments, while the net deferred tax expense or benefit represents the changes in the balance of deferred tax assets and liabilities as reported on the balance sheet.

Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future. The Company considers estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Changes in these estimates and assumptions, as well as changes in tax laws, could require the Company to adjust the valuation allowance for deferred taxes in the future. The adjustments to the valuation allowance impact the Company’s income tax provision in the period in which such adjustments are identified and recorded.

Certain of the Company’s international rigs and liftboats are owned or operated, directly or indirectly, by the Company’s wholly owned Cayman Islands subsidiaries. Most of the earnings from these subsidiaries are reinvested internationally and remittance to the United States is indefinitely postponed. In certain circumstances, management expects that, due to the changing demands of the offshore drilling and liftboat markets and the ability to redeploy the Company’s offshore units, certain of such units will not reside in a location long enough to give rise to future tax consequences in that location. As a result, no deferred tax asset or liability has been recognized in these circumstances. Should management’s expectations change regarding the length of time an offshore drilling unit will be used in a given location, the Company would adjust deferred taxes accordingly.

Earnings Per Share

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Numerator:			
Loss from continuing operations	$(216,110)	$(26,809)	$(121,000)
Less: Loss attributable to noncontrolling interest	—	39	—
Adjusted loss from continuing operations	(216,110)	(26,770)	(121,000)
Loss from discontinued operations, net of taxes	—	(41,308)	(6,004)
Net loss attributable to Hercules Offshore, Inc.	$(216,110)	$(68,078)	$(127,004)
Denominator:			
Weighted average basic and diluted shares outstanding	160,598	159,501	153,722

The Company calculates basic earnings per share by dividing both income (loss) from continuing operations and net income (loss) attributable to Hercules Offshore, Inc. by the weighted average number of shares outstanding. Diluted

earnings per share is computed by dividing both income from continuing operations and net income attributable to Hercules Offshore,

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inc. by the weighted average number of shares outstanding during the period as adjusted for the dilutive effect of the Company's stock option, 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 years ended December 31, 2014, 2013 and 2012 excludes 6.4 million, 6.3 million and 5.9 million stock equivalents, respectively, that would have potentially been included if the Company had generated income from continuing operations and net income attributable to Hercules Offshore, Inc. for the respective period, but are excluded as the Company generated a loss from continuing operations and net loss during the respective period. There were no stock equivalents to exclude from the calculation of the dilutive effect of stock equivalents for the diluted earnings per share calculations for the years ended December 31, 2014, 2013 and 2012 related to the assumed conversion of the 3.375% Convertible Senior Notes as there was no excess of conversion value in any of these periods.

3. Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). The amendments in this ASU provide guidance on presentation of unrecognized tax benefits and are expected to reduce diversity in practice and better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this ASU were effective prospectively for interim and annual periods beginning after December 15, 2013, with early adoption and retrospective application permitted. The Company adopted ASU 2013-11 as of January 1, 2014 with no material impact on its consolidated financial statements.

In April 2014, the FASB issued 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. Early adoption is permitted for disposals that have not been previously reported. The Company does not expect the adoption of this standard to have a 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. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those years, using either a full or a modified retrospective application approach. 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.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Property and Equipment, Net

The following is a summary of property and equipment, at cost, less accumulated depreciation:

	December 31, 2014	2013
	(in thousands)	
Drilling rigs and marine equipment	$2,098,651	$2,359,829
Drilling machinery and equipment	42,317	43,368
Computer equipment	17,206	18,350
Leasehold improvements	11,630	11,577
Other	9,359	3,768
Total property and equipment, at cost	2,179,163	2,436,892
Less accumulated depreciation	(604,414)	(628,366)
Total property and equipment, net	$1,574,749	$1,808,526

Depreciation expense was $164.9 million, $155.0 million and $153.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, of which, $7.1 million and $15.9 million related to discontinued operations for the years ended December 31, 2013 and 2012, respectively, and are included in Loss from Discontinued Operations, Net of Taxes on the Consolidated Statements of Operations. There was no depreciation expense related to discontinued operations during 2014.

5. Business Combinations and Asset Acquisitions

Prior to June 24, 2013 the Company held a 32% equity investment in Discovery, which was a development stage company whose purpose was to own new ultra high-specification jackup drilling rigs. Historically, the Company accounted for its investment in Discovery under the equity method of accounting. On June 24, 2013 ("Acquisition Date"), the Company acquired an additional 52% interest to bring the total interest held to 84%, for cash consideration, net of cash acquired of $77.7 million ("Discovery Transaction") and began consolidating Discovery's results of operations from that date. The Discovery Transaction allowed the Company to enter into the high-specification jackup rig market, significantly expanded its service offerings and opened new international markets that had growing needs for assets of this caliber. As of December 31, 2013, the Company held a 100% interest in Discovery as a result of additional purchases of Discovery common stock shares at 15 Norwegian Kroner ("NOK") per share (USD $26.3 million in total).

The acquisition date fair value of the Company's previously held equity interest in Discovery was $52.0 million based on the price the Company paid for additional Discovery shares on June 24, 2013 of 15 NOK per share. The Company recognized a $14.9 million gain, included in Gain on Equity Investment in the Consolidated Statement of Operations for the year ended December 31, 2013, as a result of remeasuring its 32% equity interest in Discovery at its fair value as of the Acquisition Date in accordance with FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations.

In connection with the Discovery Transaction, the Company settled certain pre-existing relationships including a receivable from Discovery, warrants to purchase 5 million Discovery shares (see Note 11), as well as deferred revenue in the amounts of $14.3 million, $3.5 million, and $5.6 million, respectively, at the Acquisition Date.

The Company valued the noncontrolling interest at the Acquisition Date of 15 NOK per share or $26.4 million in total.

The components of the consideration transferred on June 24, 2013 were as follows (in thousands):

Cash Paid, Net of Cash Acquired	$77,658
Elimination of Related Party Balances	12,283
Fair Value of Discovery Equity Investment	51,959
Noncontrolling Interest	26,448
	$168,348

67

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The allocation of the consideration on June 24, 2013 is as follows (in thousands):

Prepaids	$1,700
Other	1,563
Property and Equipment, Net	334,210
Total Assets	337,473
Accounts Payable	(986)
Accrued Liabilities (a)	(166,953)
Insurance Note Payable	(1,186)
Total Liabilities	(169,125)
Total Purchase Price	$168,348

(a) Includes final shipyard installment for Hercules Triumph of $166.9 million, which was paid on July 23, 2013.

The unaudited pro forma financial information set forth below has been compiled from historical financial statements and other information, but is not necessarily indicative of the results that actually would have been achieved had the transactions occurred on the dates indicated or that may be achieved in the future:

	Year Ended December 31,	
	2013	2012
	(in millions, except per share data)	
Revenue	$850.2	$611.3
Loss from Continuing Operations	$(40.4)	$(123.4)
Loss from Discontinued Operations, Net of Taxes	(41.3)	(6.0)
Net Loss	(81.7)	(129.4)
Loss attributable to Noncontrolling Interest	—	—
Net Loss attributable to Hercules Offshore, Inc.	$(81.7)	$(129.4)
Net Loss attributable to Hercules Offshore, Inc. Per share:		
Basic and Diluted:		
Loss from Continuing Operations	$(0.25)	$(0.80)
Loss from Discontinued Operations	(0.26)	(0.04)
Net Loss	$(0.51)	$(0.84)

The Company incurred transaction costs in the amount of $3.3 million for the year ended December 31, 2013 related to the Discovery Transaction which is included in General and Administrative in the Consolidated Statement of Operations.

The amount of revenue and net income of Discovery included in the Company's Consolidated Statement of Operations for the year ended December 31, 2013 is as follows:

	June 24, 2013 through December 31, 2013
	(in millions)
Revenue	$17.3
Net Income	2.5

In March 2013, the Company acquired the offshore drilling rig Hercules 267 for $55.0 million and the liftboat Bull Ray for $42.0 million. In March 2012, the Company acquired the offshore drilling rig Hercules 266 for $40.0 million.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Dispositions and Discontinued Operations

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 years ended December 31, 2014, 2013 and 2012:

Asset	Segment	Period of Sale	Proceeds (in thousands)	Gain/(Loss)
2014:				
Hercules 258 (a)	International Offshore	April 2014	$12,000	$10,526
Hercules 2002 (a)	Domestic Offshore	April 2014	1,750	470
Hercules 250 (a)	Domestic Offshore	June 2014	8,450	6,883
Hercules 2003 (a)	Domestic Offshore	August 2014	1,750	500
Hercules 2500 (a)	Domestic Offshore	August 2014	6,000	4,680
Hercules 156 (a)	International Offshore	September 2014	3,100	(439)
			$33,050	$22,620
2013:				
Various (b) (c)	Domestic Liftboats	July 2013	$54,447	$—
Various (b) (d)	Inland	July 2013	44,331	—
Hercules 27 (b)	Inland	August 2013	5,149	4,834
Hercules 170 (a)	International Offshore	December 2013	8,300	(11,498)
			$112,227	$(6,664)
2012:				
Hercules 2501 (a)	Domestic Offshore	June 2012	$7,000	$5,465
Hercules 29 (b)	Inland	July 2012	900	770
Platform Rig 3 (a) (e)	International Offshore	August 2012	35,516	18,350
Hercules 101 (a)	Domestic Offshore	September 2012	1,200	—
Hercules 252 (a) (f)	Domestic Offshore	October 2012	8,000	—
Hercules 257 (a)	Domestic Offshore	November 2012	6,500	2,450
Hercules 259 (a)	Domestic Offshore	November 2012	8,000	6,441
Hercules 75 (a)	Domestic Offshore	December 2012	650	(911)
Hercules 77 (a)	Domestic Offshore	December 2012	650	(825)
Hercules 28 (b)	Inland	December 2012	600	474
			$69,016	$32,214

(a) These gains (losses) are included in Operating Expenses on the Consolidated Statements of Operations.
(b) These gains (losses) have been reflected in the Consolidated Statements of Operations as discontinued operations.
(c) The Company completed the sale of its U.S. Gulf of Mexico liftboats and related assets.
(d) The Company completed the sale of eleven inland barge rigs and related assets.
(e) This represents the gain on the sale of Platform Rig 3 and related legal entities.
(f) During the third quarter of 2012, the Company realized a non-cash impairment charge related to the write-down of Hercules 252 to fair value less estimated cost to sell (See Note 11).

Discontinued Operations

In 2013, the Company sold its U.S. Gulf of Mexico liftboats and related assets and additionally sold twelve of its inland barge rigs and related assets, comprising the majority of the Inland segment fleet. These long-lived assets, excluding the Hercules 27, were written down to their fair value less estimated cost to sell, resulting in non-cash impairment charges (See Note 11).

69

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest charges have been allocated, based on a pro rata calculation of the net assets sold as compared to the Company's consolidated net assets, to the Inland and Domestic Liftboats segments. Interest allocated to discontinued operations of the Inland segment was $1.4 million and $3.6 million for the years ended December 31, 2013 and 2012, respectively. Interest allocated to discontinued operations of the Domestic Liftboats segment was $1.2 million and $2.8 million for the years ended December 31, 2013 and 2012, respectively.

Operating results included in discontinued operations were as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Inland:		
Revenue	$15,782	$28,015
Loss Before Income Taxes	$(39,585)	$(13,528)
Income Tax Benefit	2,587	5,435
Loss from Discontinued Operations, Net of Taxes	$(36,998)	$(8,093)
Domestic Liftboats:		
Revenue	$29,625	$63,552
Income (Loss) Before Income Taxes	$(4,310)	$3,240
Income Tax Provision	—	(1,151)
Income (Loss) from Discontinued Operations, Net of Taxes	$(4,310)	$2,089
Total:		
Revenue	$45,407	$91,567
Loss Before Income Taxes	$(43,895)	$(10,288)
Income Tax Benefit	2,587	4,284
Loss from Discontinued Operations, Net of Taxes	$(41,308)	$(6,004)

7. Long-Term Incentive Awards

Stock-based Compensation

The Company's 2014 Long-Term Incentive Plan (the "2014 Plan"), approved in May 2014 by the Company's stockholders, 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 December 31, 2014, approximately 6.8 million shares were available for grant or award, including 5.0 million additional shares approved for issuance 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. The Compensation Committee of the Company's Board of Directors selects participants from time to time and, subject to the terms and conditions of the 2014 Plan, determines all terms and conditions of awards. The Company issues originally issued shares upon exercise of stock options and for restricted stock grants.

The Company has the following equity award grants:

- Time-based awards The Company granted time-based restricted stock awards to its employees which vest 1/3 per year and to its Directors which vest on the date of the Company's annual meeting of stockholders that follows the grant date. 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. Additionally, the Company previously granted stock options which vested 1/3 per year and have a maximum contractual term of 10 years.
- Objective-based awards The Company granted compensation awards to its 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. The awards granted in 2014 and 2013, which cliff vest on the third anniversary of the grant date, are payable in shares at target levels when combined and in cash for the amount above target up to maximum, as defined by the agreements. For the Chief Executive Officer ("CEO"), the portion of these awards

payable in cash is based on the achievement of certain market-based and Company-based performance objectives being met at certain levels below target when combined. Additionally, for the awards granted in 2014, if either the

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

market-based or Company-based performance objectives are met at threshold or above, but the other is not, the CEO is entitled to a cash award for that objective if it is met at target or above. For 2012, a portion of the awards were payable in shares of the Company's common stock which vest 1/3 per year. For 2012, if the highest market-based and Company-based performance objectives were met, a portion of these awards were payable in cash and cliff vested at the first anniversary of the grant date. In addition, the Company granted certain awards to its CEO in 2011 that were based upon the Company's achievement of certain market-based objectives and were paid in cash at the end of the vesting periods at March 31, 2014 and December 31, 2013 ("Performance Retention Awards"). Additionally, a retention award, granted in 2011, outside of the 2004 Plan was paid in cash at December 31, 2013, the end of a three-year vesting period.

The Company recognized a $0.4 million benefit, and $3.4 million and $2.6 million in employee compensation expense during the years ended December 31, 2014, 2013 and 2012, respectively, for all liability-based awards. For these awards, the related income tax benefit was $0.9 million for the year ended December 31, 2012 and there was no related income tax benefit in the years ended December 31, 2014 and 2013, respectively. The Company recognized $8.3 million, $10.0 million and $6.2 million in employee stock-based compensation expense for all share-settled awards during the years ended December 31, 2014, 2013 and 2012, respectively. For these awards, the related income tax benefit was $2.2 million for the year ended December 31, 2012 and there was no related income tax benefit in the years ended December 31, 2014 and 2013, respectively. The Company classified $0.4 million, $1.0 million and thirteen thousand in excess tax benefits as a financing cash inflow for the years ended December 31, 2014, 2013 and 2012, respectively. The Company's estimate of future expense relating to restricted stock and liability-based awards granted through December 31, 2014 as well as the remaining vesting period over which the associated expense is to be recognized is presented in the following table:

	December 31, 2014	
	Unrecognized Compensation Expense (in thousands)	Weighted Average Remaining Term (in years)
Time-based Restricted Stock Awards	$5,654	1.3
Objective-based Awards (share settled)	5,764	1.5
Objective-based Awards (cash settled)	119	1.9

The Company uses various assumptions to estimate the fair value of its objective-based awards. The risk-free interest rate assumptions were based on observed interest rates consistent with the approximate vesting periods. For the Performance Retention Awards in 2013 and 2012, as well as other objective based awards in 2012, the Company used the historical volatility of its common stock to estimate volatility and the dividend yield assumption was based on the historical and anticipated dividend payouts of the Company. For the 2014 and 2013 objective-based awards, the Company used the historical volatility of its common stock, as well as that of certain peer groups, as defined in the award agreements to estimate volatility and the dividend yield assumptions were based on historical and anticipated dividend payouts of the Company, as well as, that of certain peer groups, as defined in the award agreements.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Objective-based Awards (cash settled)
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 its stock price performance, for 2014 and 2013 as compared to certain peer groups, as defined in the award agreements, are valued using a Monte Carlo simulation. The following are the assumptions for the Company:

	December 31, 2014	December 31, 2013		December 31, 2012	
	Restricted Stock Market-Based	Performance Retention Awards	Restricted Stock Market-Based	Performance Retention Awards	Restricted Stock Market-Based
Dividend yield	—	—	—	—	—
Expected price volatility	54.4%	65.0%	44.1%	65.0%	65.0%
Risk-free interest rate	0.5%	0.1%	0.4%	0.2%	0.1%
Stock price (a)	$1.00	$6.52	$6.52	$6.17	$6.17
Fair value	$0.05	$4.19	$6.19	$3.24	$6.17

(a) The stock price represents the closing price of the Company's common stock at the valuation date.

Stock Option Awards
The following table summarizes stock option activity as of December 31, 2014 and changes during the year then ended:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
				(in thousands)
Outstanding at January 1, 2014	3,437,175	$8.45	4.82	$8,757
Granted	—	—		
Exercised	(89,041)	1.63		
Forfeited	—	—		
Expired	(342,654)	6.22		
Outstanding at December 31, 2014	3,005,480	8.91	3.87	—
Vested or Expected to Vest at December 31, 2014	3,005,480	8.91	3.87	—
Exercisable at December 31, 2014	3,005,480	8.91	3.87	—

The intrinsic value of stock options exercised during 2014, 2013 and 2012 was $0.2 million, $0.4 million and $0.4 million, respectively. Cash received from stock option exercises was $0.1 million, $0.3 million and $0.3 million during the years ended December 31, 2014, 2013 and 2012, respectively.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Objective-based Awards (share settled)

The fair value of all awards requiring share settlement are measured at the fair value on the date of grant. These awards that are based on the Company's achievement of market-based objectives related to the Company's stock price performance, for 2014 and 2013 grants as compared to certain peer groups, as defined in the award agreements, are valued at the date of grant using a Monte Carlo simulation. The following are the assumptions for the Company:

	February 19, 2014		February 28, 2013		February 28, 2012	
Dividend yield	—		—		—	
Expected price volatility	54.4	%	64.7	%	65.0	%
Risk-free interest rate	0.6	%	0.3	%	0.2	%
Stock price (a)	$4.71		$6.78		$5.28	
Fair value	$3.63		$7.78		$5.28	

(a) The stock price represents the closing price of the Company's common stock at February 19, 2014, February 28, 2013 and February 28, 2012, the respective grant dates.

The following table summarizes information about objective-based restricted stock outstanding as of December 31, 2014 and changes during the year then ended:

	Objective-Based Restricted Stock	Weighted-Average Grant Date Fair Value
Non-Vested at January 1, 2014	1,478,861	$6.71
Granted (a)	1,423,907	4.17
Vested	(426,314)	5.94
Forfeited	(350,584)	5.52
Non-Vested at December 31, 2014	2,125,870	5.36

(a) The number of objective-based restricted stock shown reflects the shares that would be granted if the maximum level of performance is achieved. The number of shares actually issued may range from zero to 1,423,907.

The weighted-average grant date fair value of objective-based restricted stock granted during the years ended December 31, 2014, 2013 and 2012 was $4.17, $7.16 and $5.28, respectively. The total fair value of objective-based restricted stock that vested during the years ended December 31, 2014, 2013 and 2012 was $2.0 million, $3.1 million, and $0.9 million respectively.

Time-based Restricted Stock Awards

The following table summarizes information about time-based restricted stock outstanding as of December 31, 2014 and changes during the year then ended:

	Time-Based Restricted Stock	Weighted-Average Grant Date Fair Value
Non-Vested at January 1, 2014	1,526,488	$6.01
Granted	1,444,101	4.59
Vested	(880,855)	5.87
Forfeited	(240,209)	5.29
Non-Vested at December 31, 2014	1,849,525	5.08

The weighted-average grant date fair value of time-based restricted stock granted during the years ended December 31, 2014, 2013 and 2012 was $4.59, $6.86 and $5.03, respectively. The total fair value of time-based restricted stock that vested during the years ended December 31, 2014, 2013 and 2012 was $4.1 million, $6.1 million and $2.8

million, respectively.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Supplemental Financial Information

Consolidated Balance Sheet Information

Accrued liabilities consisted of the following:

	December 31, 2014	2013
	(in thousands)	
Accrued Liabilities:		
Taxes other than Income	$15,262	$18,297
Accrued Payroll and Employee Benefits	25,460	36,512
Accrued Self-Insurance Reserves	24,514	25,840
Other	854	851
	$66,090	$81,500

Other current liabilities consisted of the following:

	December 31, 2014	2013
	(in thousands)	
Other Current Liabilities:		
Deferred Revenue-Current Portion	$9,439	$21,480
Other	3,967	14,255
	$13,406	$35,735

Supplemental Cash Flow Information

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Cash paid, net during the period for:			
Interest, net of capitalized interest	$97,304	$55,094	$64,332
Income taxes	21,147	15,658	10,220

The Company capitalized interest of $4.4 million, $20.4 million and $3.6 million during the years ended December 31, 2014, 2013 and 2012, respectively.

Concentration of Credit Risk

The Company maintains its cash and cash equivalents in bank deposit accounts at high credit quality financial institutions or in highly rated liquid investments with maturities of three months or less. The balances, at many times, exceed federally insured limits.

The Company provides services to a diversified group of customers in the oil and natural gas exploration and production industry. Credit is extended based on an evaluation of each customer’s financial condition. The Company maintains an allowance for doubtful accounts receivable based on expected collectability and establishes a reserve when payment is unlikely to occur.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Sales to Major Customers

The Company's customers primarily include major integrated energy companies, independent oil and natural gas operators and national oil companies. Sales to customers exceeding 10 percent or more of the Company's total revenue from continuing operations in any of the past three years are as follows:

	Year Ended December 31,					
	2014		2013		2012	
Chevron Corporation (a)	15	%	15	%	16	%
EPL Oil & Gas (b)	14		10		5	
Saudi Aramco (c)	12		12		7	
Cairn Energy (c)	11		2		—	

(a) Revenue included in the Company's Domestic Offshore, International Offshore and International Liftboats segments.

(b) Revenue included in the Company's Domestic Offshore segment.

(c) Revenue included in the Company's International Offshore segment.

9. Benefit Plan

The Company currently has a 401(k) plan in which substantially all U.S. employees are eligible to participate. Effective April 1, 2013, the Company increased the Company match of participant contributions equal to 6% from 3% of a participant's eligible compensation. The Company incurred expense related to matching contributions of $6.8 million, $5.7 million and $3.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

10. Debt

Debt is comprised of the following:

	December 31, 2014	December 31, 2013
	(in thousands)	
8.75% Senior Notes, due July 2021	$400,000	$400,000
7.5% Senior Notes, due October 2021	300,000	300,000
6.75% Senior Notes, due April 2022	300,000	—
7.125% Senior Secured Notes, previously due April 2017	—	300,000
10.25% Senior Notes, due April 2019	200,000	200,000
3.375% Convertible Senior Notes, due June 2038*	7,410	7,166
7.375% Senior Notes, due April 2018	3,509	3,510
Total Long-term Debt	$1,210,919	$1,210,676

* The carrying amount of the equity component was $30.1 million at both December 31, 2014 and 2013.

The following is a summary of scheduled long-term debt maturities by year (in thousands):

2015	$—
2016	—
2017	—
2018	10,919
2019	200,000
Thereafter	1,000,000
	$1,210,919

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The unamortized discount of the 10.5% Senior Notes was amortized to interest expense over the original expected life of the debt instrument. The unamortized discount of the 3.375% Convertible Senior Notes was amortized to interest expense over the original expected life of the debt, which was determined to be June 1, 2013, the earliest date the holders of the notes had the right to require the Company to repurchase the notes.

	Year Ended December 31,								
	2013				2012				
	Coupon Interest	Discount Amortization	Total Interest	Effective Rate	Coupon Interest	Discount Amortization	Total Interest	Effective Rate	
	(in millions)				(in millions)				
10.5% Senior Notes, due October 2017	$24.1	$0.7	$24.8	11.00 %	$31.5	$0.8	$32.3	11.00	%
3.375% Convertible Senior Notes, due June 2038	1.1	1.2	2.3	7.27	2.7	3.2	5.9	7.93	

Senior Secured Credit Agreement

At December 31, 2011, the Company previously had a $592.9 million credit agreement, consisting of a $452.9 million term loan facility and a $140.0 million revolving credit facility. On April 3, 2012, the Company repaid in full all outstanding indebtedness under the prior secured credit facilities, and the liens securing such obligations were terminated. There were no termination penalties incurred by the Company in connection with the termination of the prior secured credit facility.

On April 3, 2012, the Company entered into a credit agreement which as amended on July 8, 2013 (the "Credit Agreement") governs its senior secured revolving credit facility (the "Credit Facility"). The Credit Agreement provides for a $150.0 million senior secured revolving credit facility, with a $50.0 million sublimit for the issuance of letters of credit. As of December 31, 2014, no amounts were outstanding and $7.4 million in letters of credit had been issued under the Credit Facility, therefore, the remaining availability under this facility was $142.6 million. All borrowings under the Credit Facility mature on July 8, 2018. The Company incurred costs of $1.1 million in 2013 related to the amendment of the Credit Agreement.

Borrowings under the Credit Facility bear interest, at the Company's option, at either (i) the Alternate Base Rate ("ABR") (the highest of the administrative agent's corporate base rate of interest, the federal funds rate plus 0.5%, or the one-month Eurodollar rate (as defined in the Credit Agreement) plus 1%), plus an applicable margin that ranges between 1.5% and 3.0%, depending on the Company's leverage ratio, or (ii) the Eurodollar rate plus an applicable margin that ranges between 2.5% and 4.0%, depending on the Company's leverage ratio. The Company pays a per annum fee on all letters of credit issued under the Credit Facility, which fee equals the applicable margin for loans accruing interest based on the Eurodollar rate, and the Company pays a commitment fee of 0.50% per annum on the unused availability under the Credit Facility. During any period of time that outstanding letters of credit under the Credit Facility exceed $10 million or there are any revolving borrowings outstanding under the Credit Facility, the Company will have to maintain compliance with a maximum secured leverage ratio (as defined in the Credit Agreement, being generally computed as the ratio of secured indebtedness to consolidated cash flow). The maximum secured leverage ratio is 3.50 to 1.00. As of December 31, 2014, the Company was in compliance with all covenants under its revolving credit facility.

The Company's obligations under the Credit Agreement are guaranteed by substantially all of the Company's current domestic subsidiaries (collectively, the "Guarantors"), and the obligations of the Company and the Guarantors are secured by liens on substantially all of the vessels owned by the Company and the Guarantors, together with certain accounts receivable, equity of subsidiaries, equipment and other assets.

8.75% Senior Notes due 2021

On July 8, 2013, the Company completed the issuance and sale of $400.0 million aggregate principal amount of senior notes at a coupon rate of 8.75% ("8.75% Senior Notes") with maturity in July 2021. These notes were sold at par and the Company received net proceeds from the offering of the notes of approximately $393.0 million after deducting the bank fees and estimated offering expenses. The net proceeds from this offering, together with cash on hand (including the proceeds of approximately $103.9 million the Company received from the sales of its inland barge rigs, domestic liftboats and related assets), were used to fund its acquisition of Discovery shares, the final shipyard payments totaling $333.9 million for Hercules Triumph and Hercules Resilience, related capital expenditures, as well as general corporate purposes. Interest on the notes is payable semi-annually in arrears on January 15 and July 15 of each year. These notes are guaranteed by each of the Guarantors

that guarantee the Company's obligations under its Credit Agreement.

7.5% Senior Notes due 2021

On October 1, 2013, the Company completed the issuance and sale of $300.0 million aggregate principal amount of senior notes at a coupon rate of 7.5% ("7.5% Senior Notes") with maturity in October 2021. These notes were sold at par and the Company received net proceeds from the offering of the notes of approximately $294.5 million after deducting the bank fees and estimated offering expenses. Interest on the notes is payable semi-annually in arrears on April 1 and October 1 of each year. These notes are guaranteed by each of the Guarantors that guarantee the Company's obligations under its Credit Agreement.

6.75% Senior Notes due 2022

On March 26, 2014, the Company completed the issuance and sale of $300.0 million aggregate principal amount of senior notes at a coupon rate of 6.75% ("6.75% Senior Notes") with maturity in April 2022. These notes were sold at par and the Company received net proceeds from the offering of the notes of approximately $294.8 million after deducting bank fees and estimated offering expenses. Interest on the notes will accrue from and including March 26, 2014 at a rate of 6.75% per year and is payable semi-annually in arrears on April 1 and October 1 of each year. These notes are guaranteed by each of the Guarantors that guarantee the Company's obligations under its Credit Agreement.

Prior to April 1, 2017, the Company may redeem the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to 106.75% of the aggregate principal amount plus accrued and unpaid interest; provided, that (i) after giving effect to any such redemptions, at least 65% of the notes originally issued would remain outstanding immediately after such redemption and (ii) the Company makes such redemption not more than 180 days after consummation of such equity offering. In addition, prior to April 1, 2017, the Company may redeem all or part of the notes at a price equal to 100% of the aggregate principal amount of the notes to be redeemed, plus the applicable premium, as defined in the indenture, and accrued and unpaid interest.

On or after April 1, 2017, the Company may redeem all or part of the notes at the redemption prices set forth below, together with accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning April 1 of the years indicated:

Year	Optional Redemption Price	
2017	105.063	%
2018	103.375	%
2019	101.688	%
2020 and thereafter	100.000	%

If the Company experiences certain kinds of changes of control, holders of the notes will be entitled to require the Company to purchase all or any portion of the notes for a cash price equal to 101.0% of the principal amount of the applicable notes, plus accrued and unpaid interest, if any, to the date of purchase. Furthermore, in certain circumstances following an asset sale (as defined in the indenture), the Company may be required to use the excess proceeds to offer to repurchase the notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

10.25% Senior Notes due 2019

On April 3, 2012 the Company completed the issuance and sale of $200.0 million aggregate principal amount of senior notes at a coupon rate of 10.25% ("10.25% Senior Notes") with maturity in April 2019. These notes were sold at par and the Company received net proceeds from the offering of the notes of $195.4 million after deducting the initial purchasers' discounts and offering expenses. Interest on the notes is payable in cash semi-annually in arrears on April 1 and October 1 of each year. These notes are guaranteed by each of the Guarantors that guarantee the Company's obligations under the Company's Credit Agreement.

3.375% Convertible Senior Notes due 2038

Since June 1, 2013, interest on the 3.375% Convertible Senior Notes due 2038 ("3.375% Convertible Senior Notes") accretes to principal 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, 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 ("Common Stock") at a conversion rate of 19.9695 shares of Common Stock per $1,000 original principal amount of notes, which is equal to a conversion price of approximately $50.08 per share. The conversion rate is subject to adjustment in certain circumstances. 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. At December 31, 2014, the number of conversion shares potentially issuable in relation to the 3.375% Convertible Senior Notes was 0.1 million. The Company may redeem the 3.375% Convertible Senior Notes at its option and holders of the notes will have the right to require the Company to repurchase the notes on June 1, 2018 and certain dates thereafter or on the occurrence of a fundamental change.

The Company determined that upon maturity or redemption, 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 May 2012, the Company repurchased a portion of the 3.375% Convertible Senior Notes and in accordance with ASC 470-20 Debt - Debt with Conversion and Other Options, the settlement consideration was allocated to the extinguishment of the liability component in an amount equal to the fair value of that component immediately prior to extinguishment with the difference between this allocation and the net carrying amount of the liability component and unamortized debt issuance costs recognized as a gain or loss on debt extinguishment. If there would have been any remaining settlement consideration, it would have been allocated to the reacquisition of the equity component and recognized as a reduction of equity.

On May 1, 2013, the Company made an offer to purchase all of the outstanding notes in accordance with its repurchase obligation under the indenture and on June 1, 2013 repurchased $61.3 million aggregate principal amount of the 3.375% Convertible Senior Notes pursuant to the terms of the optional put repurchase offer.

Retirement of 10.5% Senior Notes

In 2009, the Company issued $300.0 million of senior notes at a coupon rate of 10.5% ("10.5% Senior Notes") with maturity in October 2017. On September 17, 2013, the Company commenced a cash tender offer (the "Tender offer") for any and all of the $300.0 million outstanding aggregate principal amount of its 10.5% Senior Notes. Senior notes totaling approximately $253.6 million were settled on October 1, 2013 for $268.5 million using a portion of the proceeds from the issuance of the 7.5% Senior Notes. Additionally, on November 4, 2013 the Company redeemed all $46.4 million of the remaining outstanding 10.5% Senior Notes for approximately $48.8 million using the remaining proceeds from the 7.5% Senior Notes offering, together with cash on hand.

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 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 issuance of the 6.75% Senior Notes. 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.

Other Indenture Provisions

The Credit Agreement as well as the indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes, 10.25% Senior Notes and 3.375% Convertible Senior Notes contain customary events of default and also contain a provision under which an event of default by the Company or by any restricted subsidiary on any other indebtedness exceeding $25.0 million would be considered an event of default under the Credit Agreement and indentures if such default: a) is caused by failure to pay the principal at final maturity, or b) results in the acceleration of such indebtedness prior to maturity.

The Credit Agreement as well as the indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes, and 10.25% Senior Notes contain covenants that, among other things, limit the Company's ability and the

ability of its restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred stock;
- pay dividends or make other distributions;
- make other restricted payments or investments;
- sell assets or use the proceeds from asset sales;

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- create liens;
- enter into agreements that restrict dividends and other payments by restricted subsidiaries;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all of its assets.

Loss on Extinguishment of Debt

During the years ended December 31, 2014, 2013 and 2012, the Company incurred the following charges which are included in Loss on Extinguishment of Debt in the Consolidated Statements of Operations:

- In April 2012 and in connection with the termination of the prior secured credit facility, the Company recognized a pretax charge of $1.4 million, $0.9 million, net of tax, for the write off of unamortized issuance costs related to the term loan;
- In April 2012, the Company recognized a pretax charge of $6.4 million, $4.2 million net of tax, related to the Company's debt refinancing;
- In May 2012, the Company repurchased $27.6 million aggregate principal amount of the 3.375% Convertible Senior Notes, resulting in a loss of $1.3 million, or $0.9 million, net of tax;
- During the fourth quarter of 2013, the Company incurred a pretax charge of $29.3 million, $29.3 million net of tax, consisting of a $17.3 million call premium, $4.8 million unamortized debt discount costs and $4.2 million unamortized debt issuance costs, all related to the redemption of the 10.5% Senior Notes, as well as approximately $3.0 million of bank fees related to the issuance of the 7.5% Senior Notes;
- In March 2014, the Company incurred a pretax charge of $15.2 million, $15.2 million net of tax, 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; and
- In April 2014, the Company incurred a pretax charge of $4.8 million, $4.8 million net of tax, 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.

11. 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 FASB ASC Topic 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.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of the settlement of the warrants issued by Discovery (See Note 5) was determined using a Monte Carlo simulation based on the following assumptions:

	June 24, 2013	
Strike Price (NOK)	11.50	
Target Price (NOK)	23.00	
Stock Value (NOK)	15.00	
Expected Volatility (%)	40.0	%
Risk-Free Interest Rate (%)	1.42	%
Expected Life of Warrants (5 years at inception)	2.6	
Number of Warrants	5,000,000	

The Company used the historical volatility of companies similar to that of Discovery to estimate volatility. The risk-free interest rate assumption was based on observed interest rates consistent with the approximate life of the warrants. The stock price represents the closing stock price of Discovery stock at June 24, 2013. The strike price, target price, expected life and number of warrants are all contractual based on the terms of the warrant agreement. On June 24, 2013, the derivative asset was adjusted to a fair value of $3.5 million, measured using Level 2 inputs, and was included as a purchase adjustment in connection with the purchase of a controlling interest in Discovery.

2014 Asset Impairments

The following table represents the Company's assets measured at fair value on a non-recurring basis for which an impairment measurement was made during the year ended December 31, 2014:

	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Asset or Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gain (Loss)	
	(in thousands)					
Property and Equipment, Net (1)	$6,000	$ —	$—	$6,000	$(82,507	)
Property and Equipment, Net (2)	7,500	—	—	7,500	(117,001	)

(1) This represents a non-recurring fair value measurement made at September 30, 2014 for Hercules 202, Hercules 204, Hercules 212 and Hercules 213.
(2) This represents a non-recurring fair value measurement made at December 31, 2014 for Hercules 120, Hercules 200, Hercules 214, Hercules 251 and Hercules 253.

The Company made the decision to remove the Hercules 120, Hercules 200, Hercules 202, Hercules 204, Hercules 212, Hercules 213, Hercules 214, Hercules 251 and Hercules 253 from its marketable assets into its non-marketable assets as the Company does not reasonably expect to market these rigs in the foreseeable future. This decision resulted in a non-cash impairment charge of approximately $199.5 million ($199.5 million, net of tax), which is included in Asset Impairment on the Consolidated Statement of Operations for the year ended December 31, 2014, to write the rigs down to fair value based on a third-party estimate. The financial information for these rigs has been reported as part of the Domestic Offshore segment.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2013 Asset Impairments

The following table represents the Company's assets measured at fair value on a non-recurring basis for which an impairment measurement was made during the year ended December 31, 2013:

	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Asset or Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gain (Loss)
	(in thousands)				
Property and Equipment, Net (1)	$98,802	$ —	$98,802	$—	$(44,370)
Property and Equipment, Net (2)	6,000	—	—	6,000	(114,168)

(1) This represents a non-recurring fair value measurement made at June 30, 2013 for various assets that were part of the discontinued operations of the former Inland and Domestic Liftboats segments.
(2) This represents a non-recurring fair value measurement made at December 31, 2013 for Hercules 153, Hercules 203, Hercules 206 and Hercules 250.

Long-lived assets held for sale at June 30, 2013 were written down to their fair value less estimated cost to sell, resulting in non-cash impairment charges of $40.9 million ($40.7 million net of tax) and $3.5 million ($3.5 million, net of tax) for the discontinued operations of the former Inland and Domestic Liftboats segments, respectively. The impairment charges are included in Discontinued Operations on the Consolidated Statement of Operations for the year ended December 31, 2013 (See Note 6).

During December 2013, the Company made the decision to remove the Hercules 153, Hercules 203, Hercules 206 and Hercules 250 from its marketable assets into its non-marketable assets as the Company did not reasonably expect to market these rigs in the foreseeable future. This decision resulted in a non-cash impairment charge of approximately $114.2 million ($114.2 million, net of tax), which is included in Asset Impairment on the Consolidated Statement of Operations for the year ended December 31, 2013, to write the rigs down to fair value based on a third-party estimate. The financial information for these rigs has been reported as part of the Domestic Offshore segment.

2012 Asset Impairments

In April 2012, during the return mobilization from the U.S. Gulf of Mexico to Angola, Hercules 185 experienced extensive damage to various portions of the rig's legs (See Note 14). The Company believed it was unfeasible to repair the damage and return the rig to service and recorded a non-cash impairment charge of $42.9 million ($27.9 million, net of tax) which is included in Asset Impairment on the Consolidated Statements of Operations for the year ended December 31, 2012 to write the rig down to salvage value. The financial information for Hercules 185 has been reported as part of the International Offshore segment.

Long-lived assets held for sale at September 30, 2012 were written down to their fair value less estimated cost to sell, resulting in a non-cash impairment charge of approximately $25.5 million ($16.6 million, net of tax), which is included in Asset Impairment on the Consolidated Statements of Operations for the year ended December 31, 2012, related to Hercules 252. The sale of Hercules 252 was completed in October 2012 (See Note 6). The financial information for Hercules 252 has been reported as part of the Domestic Offshore segment.

During September 2012, the Company made the decision to cold stack Hercules 258 effective October 1, 2012 and removed it from its marketable assets into its non-marketable assets as the Company did not reasonably expect to market this rig in the foreseeable future. This decision resulted in a non-cash impairment charge of approximately $35.2 million ($35.2 million, net of tax), which is included in Asset Impairment on the Consolidated Statements of Operations for the year ended December 31, 2012, to write the rig down to fair value based on a third-party estimate. The financial information for Hercules 258 has been reported as part of the International Offshore segment.

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.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of the Company's 3.375% Convertible Senior Notes, 8.75% Senior Notes, 7.5% Senior Notes, 6.75% Senior Notes, 10.25% Senior Notes, and 7.125% Senior Secured 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.

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

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
8.75% Senior Notes, due July 2021	$400.0	$191.0	$400.0	$447.5
7.5% Senior Notes, due October 2021	300.0	135.8	300.0	317.3
6.75% Senior Notes, due April 2022	300.0	132.8	—	—
7.125% Senior Secured Notes, previously due April 2017	—	—	300.0	320.1
10.25% Senior Notes, due April 2019	200.0	111.4	200.0	226.8
3.375% Convertible Senior Notes, due June 2038	7.4	6.5	7.2	7.1
7.375% Senior Notes, due April 2018	3.5	1.9	3.5	3.5

12. Income Taxes

Income (loss) from continuing operations before income taxes consisted of the following:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
United States	$(211,186)	$(68,080)	$(120,004)
Foreign	3,581	30,327	(19,717)
Total	$(207,605)	$(37,753)	$(139,721)

The income tax (benefit) provision consisted of the following:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Current-United States	$642	$2,776	$184
Current-foreign	15,611	14,539	14,861
Current-state	(57)	(114)	(3,698)
Current income tax provision	16,196	17,201	11,347
Deferred-United States	548	(30,124)	(30,707)
Deferred-foreign	(4,407)	1,341	(708)
Deferred-state	(3,832)	638	1,347
Deferred income tax benefit	(7,691)	(28,145)	(30,068)
Total income tax (benefit) provision	$8,505	$(10,944)	$(18,721)

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of and changes in the net deferred taxes were as follows:

	December 31, 2014	2013
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforward (Federal, State & Foreign)	$155,649	$170,772
Credit carryforwards	35,596	34,805
Accrued expenses	13,026	17,616
Unearned income	664	819
Intangibles	3,638	5,141
Stock-based compensation	5,628	5,954
Deferred expenses	5,215	—
Valuation allowance	(125,021)	(61,913)
Deferred tax assets	94,395	173,194
Deferred tax liabilities:		
Fixed assets	(89,463)	(168,339)
Convertible notes	(947)	(768)
Deferred expenses	—	(2,210)
Other	(1,636)	(3,713)
Deferred tax liabilities	(92,046)	(175,030)
Net deferred tax assets (liabilities)	$2,349	$(1,836)

A reconciliation of statutory and effective income tax rates is as shown below:

	Year Ended December 31,		
	2014	2013	2012
Statutory rate	35.0 %	35.0 %	35.0 %
Effect of:			
Taxes on foreign earnings at greater than the U.S. statutory rate	(13.3)	(23.6)	(19.7)
Officer's compensation	(0.1)	(3.3)	(0.4)
Seahawk tax attributes	—	152.5	—
Valuation allowance	(30.4)	(125.9)	—
Uncertain tax positions	2.4	(0.5)	(0.1)
State income taxes	3.1	(1.5)	0.7
Other	(0.8)	(3.7)	(2.1)
Effective rate	(4.1)%	29.0 %	13.4 %

The amount of consolidated U.S. net operating losses (“NOLs”) available as of December 31, 2014 is approximately $447.9 million, including the NOLs acquired in the Seahawk Transaction. This differs from the NOL reported in the Company's financial statements by $4.3 million which represents the unrealized tax benefits associated with equity compensation and uncertain tax position in accordance with FASB ASC 718, Stock Compensation and FASB ASC 740, Income Taxes. These NOLs will expire in the years 2029 through 2031. In addition, the Company has $35.6 million of non-expiring alternative minimum tax credits.

The Company has not recorded deferred income taxes on the remaining undistributed earnings of certain of its foreign subsidiaries because of management’s intent to permanently reinvest such earnings. At December 31, 2014, the aggregate amount of undistributed earnings of the foreign subsidiaries was $32.5 million. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the remittance of these earnings.

In accordance with FASB ASC 740, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company recorded interest and penalties expense (benefit) of $(1.8) million, $0.2 million and $0.2

million through the Income Tax Benefit (Provision) line of the Consolidated Statements of Operations for each of the years ended December 31, 2014, 2013 and 2012, respectively.

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 2007 through 2013 remain open for examination by the taxing authorities 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 2009 through 2013.

Effective April 27, 2011 the Company completed the Seahawk Transaction. For tax purposes this was characterized as a reorganization pursuant to IRC §368(a)(1)(G). The Company recorded deferred tax assets, net of a valuation allowance, of approximately $37.7 million in the first quarter of 2013. There can be no assurance that these deferred tax assets will be realized.

In accordance with FASB ASC 740, the Company evaluates its deferred tax assets, including net operating losses and credits, to determine if a valuation allowance should be recognized on the consideration of all available evidence using a "more likely than not" standard. Based on the analysis of all factors management concluded that due to the uncertainty regarding the future realization of the net deferred tax asset, a valuation allowance should be recorded. As of December 31, 2014 and 2013, the Company had a valuation allowance of $125.0 million and $61.9 million, respectively.

The following table presents the reconciliation of the total amounts of unrecognized tax benefits that, if recognized, would impact the effective income tax rate:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Balance, beginning of period	$5,533	$5,533	$5,533
Gross increases — tax positions in prior periods	713	—	—
Lapse of statute of limitation	(2,641)	—	—
Balance, end of period	$3,605	$5,533	$5,533

The unrecognized tax benefits may change due to the settlement of audits and the expiration of statutes of limitation in the next twelve months. The Company recognized $5.7 million of tax benefit, including accrued interest and penalties of $2.6 million, as well as the reversal of a valuation allowance of $0.4 million during the year ended December 31, 2014 as a result of the tolling of statutes of limitations in foreign and federal jurisdictions. The Company believes it is reasonably possible that approximately $0.9 million of the unrecognized tax benefit may be recognized by the end of 2015 as a result of a lapse of a statute of limitations in a foreign jurisdiction.

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 2008, SENIAT, the national Venezuelan tax authority, commenced an audit for the 2003 calendar year, which was completed in the fourth quarter of 2008. The Company has not yet received any proposed adjustments from SENIAT for that year. In June 2013, the U.S. Internal Revenue Service commenced an audit of the U.S. Corporate Income Tax Return, for the 2010 calendar year. The audit was completed during March 2014 and the Company received notification from the Internal Revenue Service that the audit resulted in no change to the Company's reported tax. In July 2014, the U.S. Internal Revenue Service commenced an audit of the U.S. Corporate Income Tax Returns

for the 2011 and 2012 calendar years. The audit was completed during November 2014 and the Company received notification from the Internal Revenue Service that the audit resulted in no change to the Company's reported tax. In January 2014, the Federal Inland Revenue Service of Nigeria notified the Company that it will initiate an audit including calendar years 2007 through 2011. 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.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. 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 results of operations of the former Domestic Liftboats and Inland segments are reflected in the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012, as discontinued operations (See Note 6). The financial information of the Company's discontinued operations is not included in the results of operations presented for the Company's reporting segments.

The following describes the Company's reporting segments as of December 31, 2014:

Domestic Offshore - includes 24 jackup rigs in the U.S. Gulf of Mexico that can drill in maximum water depths ranging from 85 to 350 feet. Fourteen of the jackup rigs are either under contract or available for contracts and 10 are cold stacked. Subsequent to December 31, 2014, five additional jackup rigs were cold stacked.

International Offshore — includes nine jackup rigs outside of the U.S. Gulf of Mexico. The Company has three jackup rigs contracted offshore in Saudi Arabia, one jackup rig contracted offshore in India, one jackup rig contracted offshore in Ivory Coast, one jackup rig in the shipyard in Gabon and one jackup rig ready stacked in Gabon. Additionally, the Company has one newbuild jackup rig under construction in Singapore that is expected to be delivered in April 2016 and one jackup rig in a shipyard in the Netherlands preparing for North Sea operations. 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 is in the process of seeking a basis for continuing the Hercules 261 contract (See Note 17).

International Liftboats — includes 24 liftboats. Twenty 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 three are operating or available for contracts in the Middle East region.

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, Hercules 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. Specific to the Perisai Agreement, the Company recognized revenue and operating expenses of $11.1 million and $5.6 million, respectively, for the year ended December 31, 2014. These results are included in the Company’s International Offshore segment. Perisai Pacific 102 is expected to be delivered in the second quarter of 2015.

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

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Revenue	Income (Loss) from Operations (in thousands)	Depreciation and Amortization	Revenue	Income (Loss) from Operations (in thousands)	Depreciation and Amortization
Domestic Offshore	$497,209	$(40,588)	$70,576	$522,705	$90,202	$78,526
International Offshore	291,486	302	75,672	190,376	(19,762)	51,759

International Liftboats	111,556	4,434	20,763	145,219	37,575	18,627
	$900,251	$(35,852)	$167,011	$858,300	$108,015	$148,912
Corporate	—	(52,647)	3,887	—	(56,583)	3,031
Total Company	$900,251	$(88,499)	$170,898	$858,300	$51,432	$151,943

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31, 2012		
	Revenue	Income (Loss) from Operations	Depreciation and Amortization
		(in thousands)	
Domestic Offshore	$355,762	$8,755	$76,890
International Offshore	135,047	(59,205)	45,577
International Liftboats	127,416	38,148	17,213
	$618,225	$(12,302)	$139,680
Corporate	—	(47,425)	2,649
Total Company	$618,225	$(59,727)	$142,329

	Total Assets	
	December 31, 2014	December 31, 2013
	(in thousands)	
Domestic Offshore	$511,804	$783,652
International Offshore	1,228,247	1,290,122
International Liftboats	227,776	180,356
Corporate	34,580	47,318
Total Company	$2,002,407	$2,301,448

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Capital Expenditures:			
Domestic Offshore	$54,082	$63,344	$42,016
International Offshore (a)	83,777	459,685	74,235
Inland	—	396	1,560
Domestic Liftboats	—	5,678	9,692
International Liftboats	9,037	12,407	8,489
Corporate	626	3,477	2,613
Total Company	$147,522	$544,987	$138,605

(a) 2013 includes a $166.9 million final shipyard installment payment for each of Hercules Triumph and Hercules Resilience.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A substantial portion of the Company's assets are mobile. Asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the periods. The following tables present revenue and long-lived assets by country based on the location of the service provided:

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Operating Revenue:			
United States	$503,626	$522,705	$356,042
Saudi Arabia	114,171	114,364	55,911
India	96,198	17,319	56
Nigeria	75,183	115,314	105,176
Gabon	64,537	—	—
Singapore	—	8,178	6,885
Other (a)	46,536	80,420	94,155
Total	$900,251	$858,300	$618,225

	As of December 31,	
	2014	2013
	(in thousands)	
Long-Lived Assets:		
United States	$356,656	$583,868
Saudi Arabia	322,004	332,715
India	45,296	272,069
Nigeria	112,428	121,148
Gabon	442,192	—
Singapore	31,904	339,231
Netherlands	272,488	—
Other (a)	15,142	185,238
Total	$1,598,110	$1,834,269

(a) Other represents countries in which the Company operates that individually had operating revenue or long-lived assets representing less than 10% of total operating revenue or total long-lived assets.

14. Commitments and Contingencies

Operating Leases

The Company has non-cancellable operating lease commitments that expire at various dates through 2017. As of December 31, 2014, future minimum lease payments related to non-cancellable operating leases were as follows (in thousands):

Years Ended December 31,	
2015	$3,491
2016	3,066
2017	2,806
2018	—
2019	—
Thereafter	—
Total	$9,363

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rental expense for all operating leases was $16.9 million, $15.1 million and $13.8 million for the years ended December 31, 2014, 2013 and 2012, respectively, of which $0.4 million and $0.7 million related to discontinued operations and is included in Loss from Discontinued Operations, Net of Taxes on the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012, respectively.

Rig Construction Contract

In May 2014, the Company signed a rig construction contract with JSL in Singapore to build a HSHE rig, Hercules Highlander, which is expected to be delivered in April 2016 (See Note 1). 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 $244 million remains to be spent at December 31, 2014. 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 with a second 10% payment due one year after the initial payment and the final 80% of the shipyard payment due upon delivery of the rig.

Legal Proceedings

The Company is involved in various claims and lawsuits in the normal course of business. As of December 31, 2014, 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.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

EPA Notice of Potential Violation of Resource Conservation and Recovery Act

In December 2014, we received a notice from the EPA alleging potential violations of the Resource Conservation and Recovery Act ("RCRA") related to hazardous waste generation requirements. The Company has agreed to pay a penalty of approximately $132,000 to resolve the matter and are in the process of finalizing the associated Consent Agreement and Final Order. We believe the ultimate resolution of this matter will not have a material impact on our results of operations, financial position or cash flows.

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 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, 2014, 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, 2015. The Company paid $42.9 million in the second quarter of 2014 for its insurance renewals.

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. 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

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

sustained substantial damage in the incident and the Company's insurance underwriters determined that the rig was a constructive total loss. The Company received gross insurance proceeds of $50.0 million, the rig's insured value, in December 2013 from insurance underwriters and recorded a net insurance gain of $31.6 million, which is included in Operating Expenses on the Consolidated Statement of Operations for the year ended December 31, 2013, after writing off the rig's net book value of $18.4 million. The financial information for Hercules 265 has been reported as part of the Domestic Offshore segment. The cause of the incident is unknown but is under investigation. The Company also has removal of wreck coverage 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 to date and used $2.0 million to repurchase the Hercules 265 hull from the insurance underwriters. 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.

Insurance Claims Settlement

In September 2011, the Company was conducting a required annual spud can inspection on Hercules 185 in protected waters offshore Angola. While conducting the inspection, it was determined that the spud can on the starboard leg had detached from the leg. Subsequently, additional leg damage was identified. The rig underwent repairs related to this damage and was mobilized back to Angola. During the return mobilization from the U.S. Gulf of Mexico to Angola, Hercules 185 experienced additional damage to its legs. The Company conducted a survey of the rig's legs above and below the water line and discovered extensive damage to various portions of the rig's legs. In June 2012, the Company determined that it was unfeasible to repair the damage and return the rig to service and recorded a non-cash impairment charge to write the rig down to salvage value (See Note 11). The Company and its insurance underwriters reached a global settlement in September 2012, agreeing that Hercules 185 should be considered a constructive total loss. From this settlement, the Company received total insurance proceeds of $41.0 million for the rig, including $7.5 million received in June 2012 for its earlier claim relating to previous leg damage to the rig. These proceeds generated a gain on insurance settlement of $27.3 million which is included in Operating Expenses on the Consolidated Statement of Operations for the year ended December 31, 2012.The financial information for Hercules 185 has been reported as part of the International Offshore segment. In the fourth quarter 2013, the Company sold the Hercules 185 for $0.6 million. Pursuant to the Company's settlement with the underwriters, the full proceeds from this sale were transferred to underwriters after closing.

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 $6.3 million and $9.1 million related to these sales and use tax matters, which is included in Accrued Liabilities on the Consolidated Balance Sheets as of December 31, 2014 and 2013, respectively.

15. Unaudited Interim Financial Data

Unaudited interim financial information for the years ended December 31, 2014 and 2013 is as follows:

	Quarter Ended			
	March 31 (a)	June 30 (b)	September 30 (c)	December 31 (d)
	(in thousands, except per share amounts)			
2014				
Revenue	$256,734	$242,963	$221,884	$178,670
Operating Income (Loss)	57,672	50,049	(70,898)	(125,322)
Net Income (Loss)	19,916	6,646	(88,553)	(154,119)
Loss attributable to Noncontrolling Interest	—	—	—	—
Net Income (Loss) attributable to Hercules Offshore, Inc.	$19,916	$6,646	$(88,553)	$(154,119)

Net Income (Loss) attributable to Hercules Offshore, Inc. Per Share:				
Basic	$0.12	$0.04	$(0.55)	$(0.96)
Diluted	0.12	0.04	(0.55)	(0.96)

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Quarter Ended			
	March 31 (e)	June 30 (f)	September 30	December 31 (g)
	(in thousands, except per share amounts)			
2013				
Revenue	$186,195	$211,456	$225,308	$235,341
Operating Income (Loss)	18,187	33,250	45,256	(45,261)
Income (Loss) from Continuing Operations	40,298	16,574	17,159	(100,840)
Income (Loss) from Discontinued Operations, Net of Taxes	(5,136)	(43,953)	8,093	(312)
Net Income (Loss)	35,162	(27,379)	25,252	(101,152)
Loss attributable to Noncontrolling Interest	—	18	21	—
Net Income (Loss) attributable to Hercules Offshore, Inc.	$35,162	$(27,361)	$25,273	$(101,152)
Net Income (Loss) attributable to Hercules Offshore, Inc. Per Share:				
Basic:				
Income (Loss) from Continuing Operations	$0.25	$0.10	$0.11	$(0.63)
Income (Loss) from Discontinued Operations	(0.03)	(0.27)	0.05	—
Net Income (Loss)	$0.22	$(0.17)	$0.16	$(0.63)
Diluted:				
Income (Loss) from Continuing Operations	$0.25	$0.10	$0.11	$(0.63)
Income (Loss) from Discontinued Operations	(0.03)	(0.27)	0.05	—
Net Income (Loss)	$0.22	$(0.17)	$0.16	$(0.63)

(a) Includes a $15.2 million charge related to the retirement of a portion of the 7.125% Senior Secured Notes and the issuance of the 6.75% Senior Notes (See Note 10).

(b) Includes a $17.9 million gain on the sale of three cold-stacked drilling rigs and a $4.8 million charge related to the retirement of the remaining portion of the 7.125% Senior Secured Notes (See Notes 6 and 10).

(c) Includes a $4.7 million net gain on the sale of three cold-stacked drilling rigs and $82.5 million in non-cash asset impairment charges (See Notes 6 and 11).

(d) Includes $117.0 million in non-cash asset impairment charges (See Note 11).

(e) Includes a $37.7 million tax benefit related to the Seahawk acquisition.

(f) Income from continuing operations includes a $14.9 million gain on equity investment, while loss from discontinued operations includes $44.4 million in non-cash asset impairment charges (See Notes 5 and 11).

(g) Includes $114.2 million in non-cash asset impairment charges, a loss on the sale of Hercules 170 of $(11.5) million, a $31.6 million gain on the Hercules 265 insurance settlement and a charge of $29.3 million related to the redemption of the 10.5% Senior Notes and issuance of the 7.5% Senior Notes (See Notes 6, 10, 11 and 14).

16. Related Parties

The Company engages in transactions in the ordinary course of business with entities with whom certain of the Company's directors or members of management have a relationship. The Company has determined that these transactions were carried out on an arm’s-length basis and are not material individually or in the aggregate. All of these transactions were approved in accordance with the Company’s Policy on Covered Transactions with Related Persons. The following provides a brief description of these relationships.

- The Company’s Chairman of the Board of Directors is a member of the Board of Directors of Global Energy Services, which includes the Southwest Oilfield Products division, an oilfield equipment manufacturing company.

- A member of the Company's Board of Directors is a member of the Board of Directors of HCC Insurance Holdings, Inc., a specialty insurance group.
- A member of the Company's Board of Directors is a member of the Board of Directors of Bristow Group, Inc.

Table of Contents
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- A member of the Company's Board of Directors is a member of the Board of Directors of Technip, a provider of project management, engineering and construction for the energy industry.
- The Company holds a three percent ownership in each of Hall-Houston Exploration II, L.P., Hall-Houston Exploration III, L.P. and Hall-Houston Exploration IV, L.P., exploration and production funds.
- As of December 31, 2012, the Company had an investment in approximately 32% of the total outstanding equity of Discovery. In 2013, through additional purchases of shares of Discovery's common stock, the Company acquired a 100% interest in Discovery (See Note 5). One current and one former officer of the Company served on the Board of Directors of Discovery Offshore prior to it becoming a wholly owned subsidiary.

17. Subsequent Event

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 is in the process of seeking a basis for continuing the Hercules 261 contract. There will be no termination fee payable to the Company under the contract as a result of such termination (See Note 1).

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the U.S. Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013 framework). Based on our assessment, we have concluded that, as of December 31, 2014, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has audited our internal control over financial reporting as of December 31, 2014, as stated in their report entitled "Report of Independent Registered Public Accounting Firm" which appears in Item 8 of this annual report.

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to our definitive proxy statement, which is to be filed with the SEC pursuant to the Securities Exchange Act of 1934 within 120 days after the end of our fiscal year on December 31, 2014.

Code of Business Conduct and Ethical Practices

We have adopted a Code of Conduct, which applies to, among others, our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. We have posted a copy of the code in the “Corporate Governance” section of our internet website at www.herculesoffshore.com. Copies of the code may be obtained free of charge on our website or by requesting a copy in writing from our Corporate Secretary at 9 Greenway Plaza, Suite 2200, Houston, Texas 77046. Any waivers of the code must be approved by our board of directors or a designated board committee. Any amendments to, or waivers from, the code that apply to our executive officers and directors will be posted in the “Corporate Governance” section of our internet website at www.herculesoffshore.com.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our definitive proxy statement, which is to be filed with the SEC pursuant to the Exchange Act within 120 days after the end of our fiscal year on December 31, 2014.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to our definitive proxy statement, which is to be filed with the SEC pursuant to the Exchange Act within 120 days after the end of our fiscal year on December 31, 2014.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our definitive proxy statement, which is to be filed with the SEC pursuant to the Exchange Act within 120 days after the end of our fiscal year on December 31, 2014.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to our definitive proxy statement, which is to be filed with the SEC pursuant to the Exchange Act within 120 days after the end of our fiscal year on December 31, 2014.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are included as part of this report:

(1) Financial Statements

(2) Consolidated Financial Statement Schedule on page 100 of this Report.

(3) The Exhibits of the Company listed below in Item 15(b)

(b) Exhibits

Table of Contents

Exhibit Number		Description
1.1	—	Underwriting Agreement, dated September 24, 2009, by and between Hercules Offshore, Inc. and Morgan Stanley & Co. Incorporated and UBS Securities LLC, as representatives of the underwriters named in Schedule A thereto (incorporated by reference to Exhibit 1.1 to Hercules' Current Report on Form 8-K dated September 30, 2009).
1.2	—	Underwriting Agreement, dated March 22, 2012, by and between Hercules Offshore, Inc. and Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. and Deutsche Bank Securities Inc., as representatives of the underwriters named in Schedule A thereto (incorporated by reference to Exhibit 1.1 to Hercules' Current Report on Form 8-K dated March 28, 2012).
2.1	—	Asset Purchase Agreement, dated February 11, 2011, by and between Hercules Offshore, Inc., SD Drilling LLC and Seahawk Drilling, Inc., Seahawk Global Holdings LLC, Seahawk Mexico Holdings LLC, Seahawk Drilling Management LLC, Seahawk Drilling LLC, Seahawk Offshore Management LLC, Energy Supply International LLC and Seahawk Drilling USA, LLC (incorporated by reference to Exhibit 2.1 to Hercules' Current Report on Form 8-K/A dated February 15, 2011 (File No. 0-51582)).
2.2	—	Plan of Conversion (incorporated by reference to Exhibit 2.1 to Hercules' Registration Statement on Form S-1 (Registration No. 333-126457), as amended (the "S-1 Registration Statement"), originally filed on July 8, 2005).
2.3	—	Amended and Restated Agreement and Plan of Merger, dated effective as of March 18, 2007, by and among Hercules, THE Hercules Offshore Drilling Company LLC and TODCO (incorporated by reference to Annex A to the Joint Proxy/Statement Prospectus included in Part I of Hercules' Registration Statement on Form S-4 (Registration No. 333-142314), as amended (the "S-4 Registration Statement"), originally filed April 24, 2007).
3.1	—	Amended and Restated Certificate of Incorporation of Hercules Offshore, Inc. dated May 15, 2012 (incorporated by reference to Exhibit 3.1 to Hercules' Current Report on Form 8-K filed May 18, 2012).
3.2	—	Certificate of Amendment of the Amended and Restated Certificate of Incorporation, dated May 14, 2014 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed May 16, 2014 (the "May 2014 8-K")).
3.3	—	Amended and Restated Bylaws (effective December 31, 2009) (incorporated by reference to Exhibit 3.1 to Hercules' Current Report on Form 8-K dated December 2, 2009 and filed on December 8, 2009).
4.1	—	Form of specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the S-1 Registration Statement), as amended and filed on October 12, 2005.
4.2	—	Rights Agreement, dated as of October 31, 2005, between Hercules and American Stock Transfer & Trust Company, as rights agent (incorporated by reference to Exhibit 4.1 to Hercules' Current Report on Form 8-K dated and filed November 1, 2005 ("the 2005 Form 8-K")).
4.3	—	Amendment No. 1 to Rights Agreement, dated as of February 1, 2008, between Hercules and American Stock Transfer & Trust Company, as rights agent.
4.4	—	Second Amendment to Rights Agreement, dated as of February 13, 2012, between Hercules and American Stock Transfer & Trust Company, as rights agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated February 13, 2012 and filed on February 16, 2012 (the "February 2012 8-K")).
4.5	—	Certificate of Designations of Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 4.2 to the 2005 Form 8-K).
4.6	—	Credit Agreement dated as of July 11, 2007 among Hercules, as borrower, its subsidiaries party thereto, as guarantors, UBS AG, Stamford Branch, as issuing bank, administrative agent and

		collateral agent, Amegy Bank National Association and Comerica Bank, as co-syndication agents, Deutsche Bank AG Cayman Islands Branch and Jefferies Finance LLC, as co-documentation agents, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated July 11, 2007 (File No. 0-51582)).
4.7	—	Indenture, dated as of June 3, 2008, by and between the Company and The Bank of New York Trust Company, National Association as Trustee (incorporated by reference to Exhibit 4.1 to Hercules' Current Report on Form 8-K dated June 3, 2008 (File No. 0-51582)).
4.8	—	Amendment No. 2 dated as of July 23, 2009, to the Credit Agreement dated July 11, 2007, among Hercules Offshore, Inc., as borrower, its subsidiaries party thereto, as guarantors, and UBS AG, Stamford Branch, as issuing bank, administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 4.1 to Hercules Quarterly Report on Form 10-Q dated July 29, 2009).

Table of Contents

Exhibit Number		Description
4.9	—	Indenture dated as of October 20, 2009, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee and Collateral Agent (incorporated by reference to Exhibit 4.1 to Hercules' Current Report on Form 8-K dated October 26, 2009), (the "October 2009 8-K").
4.10	—	Form of 10.50% Senior Secured Note due 2017 (included in Exhibit 4.9).
4.11	—	Security Agreement dated as of October 20, 2009, by and among Hercules Offshore, Inc. and the Guarantors party thereto and U.S. Bank National Association as Collateral Agent (incorporated by reference to Exhibit 4.3 to the October 2009 8-K).
4.12	—	Registration Rights Agreement dated as of October 20, 2009, by and among Hercules Offshore, Inc., the Guarantors named therein and the Initial Purchasers party thereto (incorporated by reference to Exhibit 4.4 to the October 2009 8-K).
4.13	—	Form of Indenture between Hercules and the trustee thereunder (the "Senior Trustee") in respect of senior debt securities (incorporated by reference to Exhibit 4.7 to Hercules' Registration Statement on Form S-3 filed December 3, 2010), (the "2010 S-3 Registration Statement").
4.14	—	Form of Indenture between Hercules and the trustee thereunder (the "Subordinated Trustee") in respect of subordinated debt securities (incorporated by reference to Exhibit 4.8 to the 2010 S-3 Registration Statement).
4.15	—	Amendment No. 3 to Credit Agreement, date as of March 3, 2011, by and among the Company, as borrower, its subsidiaries party thereto, as guarantors, the Issuing Banks (as defined in the Credit Agreement) party thereto, and UBS AG, Stamford Branch, as administrative agent for the Lenders and as collateral agent and instructing beneficiary under the Mortgage Trust Agreement (as defined in the Credit Agreement) for the Secured Parties (as defined in the Credit Agreement) (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated March 8, 2011) (File No. 0-51582).
4.16	—	Indenture dated as of April 3, 2012, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee (incorporated by reference to Exhibit 4.3 to the April 2012 8-K).
4.17	—	Form of 10.25% Senior Note due 2019 (included in Exhibit 4.16).
4.18	—	Credit Agreement dated as of April 3, 2012, among Hercules Offshore, Inc., the Guarantors named therein, the lenders party thereto, Deutsche Bank Trust Company Americas, as administrative agent, collateral agent and issuing bank, and the other agents party thereto (incorporated by reference to Exhibit 4.5 to the April 2012 8-K).
4.19	—	Indenture dated as of July 8, 2013, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed July 10, 2013 (the "July 2013 8-K")).
4.20	—	Form 8.750% Senior Note Due 2021 (included in Exhibit 4.19).
4.21	—	Amendment No. 2 to Credit Agreement dated as of July 8, 2013, among Hercules Offshore, Inc., the Guarantors named therein, the lenders party thereto, Deutsche Bank AG New York Branch, as administrative agent, collateral agent and issuing bank, and the other agents party thereto (incorporated by reference to Exhibit 4.3 of the July 2013 8-K).
4.22	—	Third Supplemental Indenture dated as of October 1, 2013 to Indenture dated as of October 20, 2009, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed October 7, 2013 (the "October 2013 8-K")).
4.23	—	Indenture dated as of October 1, 2013, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee (incorporated by reference to Exhibit 4.2 to the October 2013 8-K).

4.24	—	Form of 7.50% Senior Note Due 2021 (included in Exhibit 4.23).
4.25	—	First Supplemental Indenture dated as of March 26, 2014 to Indenture dated as of April 3, 2012, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed March 31, 2014 (the "March 2014 8-K")).
4.26	—	Indenture dated as of March 26, 2014, by and among Hercules Offshore, Inc., the Guarantors named therein and U.S. Bank National Association as Trustee (incorporated by reference to Exhibit 4.2 to the March 2014 8-K).
4.27	—	Form of 6.750% Senior Note Due 2022 (included as Exhibit A to Exhibit 4.2 of the March 2014 8-K).
†10.1	—	Amended and Restated Executive Employment Agreement, dated February 28, 2012, between the Company and John T. Rynd (incorporated by reference to Exhibit 10.5 to Hercules' Current Report on Form 8-K dated March 2, 2012 (the "March 2012 8-K")).

Table of Contents

Exhibit Number		Description
†10.2	—	Amended and Restated Executive Employment Agreement, dated February 28, 2012, between the Company and James W. Noe (incorporated by reference to Exhibit 10.6 to the March 2012 8-K).
†10.3	—	Amended and Restated Executive Employment Agreement, dated February 28, 2012, between the Company and Stephen M. Butz (incorporated by reference to Exhibit 10.7 to the March 2012 8-K).
†10.4	—	Amended and Restated Executive Employment Agreement, dated February 28, 2012, between the Company and Terrell L. Carr (incorporated by reference to Exhibit 10.8 to the March 2012 8-K).
†10.5	—	Amended and Restated Executive Employment Agreement, dated February 28, 2012, between the Company and Troy L. Carson (incorporated by reference to Exhibit 10.6 to the March 2012 8-K).
†10.6	—	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated April 7, 2006 (File No. 0-51582)).
†10.7	—	Hercules Offshore, Inc. Amended and Restated Deferred Compensation Plan (incorporated by reference to Exhibit 10.18 to Hercules' Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-51582)).
†10.8	—	Hercules Offshore, Inc. HERO Annual Performance Bonus Plan (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated December 21, 2011).
†10.9	—	Hercules Offshore Amended and Restated 2004 Long-Term Incentive Plan (incorporated by reference to Appendix A to Hercules' Proxy Statement on Schedule 14A filed March 25, 2011 (File No. 0-51582)).
†10.10	—	Second Amendment to Hercules Offshore, Inc. Amended and Restated 2004 Long-Term Incentive Plan dated February 13, 2012 (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated February 16, 2012).
†10.11	—	Hercules Offshore, Inc. 2014 Long-Term Incentive Plan (Incorporated by reference to Annex A of Hercules' Definitive Proxy Statement on Schedule 14A filed on March 28, 2014).
†10.12	—	Form of Phantom Stock Agreement for Chief Executive Officer (incorporated by reference to Exhibit 10.3 to Hercules Quarterly Report on Form 10-Q filed July 27, 2012 (the "July 2012 10-Q")).
†10.13	—	Form of Phantom Stock Agreement for Employees (incorporated by reference to Exhibit 10.4 to the July 2012 10-Q).
†10.14	—	Form of Phantom Stock Agreement and Cash Award Agreement for Chief Executive Officer (included as Exhibit 10.1 to the Hercules' Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed on April 25, 2013).
†10.15	—	Form of Phantom Stock Agreement for Employees (included as Exhibit 10.2 to the Hercules' Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed on April 25, 2013).
†10.16	—	Form of 2014 Phantom Stock Agreement and Cash Award Agreement for Chief Executive Officer (included as Exhibit 10.2 to the Hercules Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed on April 23, 2014).
†10.17	—	Form of 2014 Phantom Stock Agreement for Employees (included as Exhibit 10.3 to the Hercules Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed on April 23, 2014).
†10.18	—	Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated March 3, 2009).
†10.19	—	Form of Restricted Stock Agreement for Employees and Consultants (incorporated by reference to Exhibit 10.16 to Hercules' Annual Report on Form 10-K for the year ended December 31,

		2008 (File No. 0-51582)).
†10.20	—	Performance Award Agreement, dated January 1, 2011, between Hercules and John T. Rynd (incorporated by reference to Exhibit 10.27 to Hercules' Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 0-51582)) (the "2010 Form 10-K").
†10.21	—	Performance Award Agreement, dated January 1, 2011, between Hercules and John T. Rynd (incorporated by reference to Exhibit 10.28 to the 2010 Form 10-K).
†10.22	—	Special Retention Award Agreement, dated January 1, 2011, between Hercules and John T. Rynd (incorporated by reference to Exhibit 10.29 to the 2010 Form 10-K).
10.23	—	Registration Rights Agreement, dated as of July 8, 2005, between Hercules and the holders listed on the signature page thereto (incorporated by reference to Exhibit 10.9 to Hercules' Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 0-51582)).
10.24	—	Increase Joinder, dated as of April 28, 2008, among Hercules, as borrower, its subsidiaries party thereto, the incremental lenders and other lenders party thereto, and UBS AG Stamford Branch, as administrative agent for the lenders party thereto (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated April 30, 2008 (File No. 0-51582)).

Table of Contents

Exhibit Number		Description
10.25	—	Purchase Agreement, dated May 28, 2008, by and between the Company and Goldman, Sachs & Co., Banc of America Securities LLC and UBS Securities LLC, as representatives of the Initial Purchasers (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated June 3, 2008 (File No. 0-51582)).
10.26	—	Asset Purchase Agreement, dated April 3, 2006, by and between Hercules Liftboat Company, LLC and Laborde Marine Lifts, Inc. (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated April 3, 2006 (File No. 0-51582)).
10.27	—	Asset Purchase Agreement, dated as of August 23, 2006, by and among Hercules International Holdings, Ltd., Halliburton West Africa Ltd. and Halliburton Energy Services Nigeria Limited (incorporated by reference to Exhibit 10.1 to Hercules' Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-51582)).
10.28	—	First Amendment to Asset Purchase Agreement, dated as of November 1, 2006, by and among Hercules International Holdings, Ltd., Hercules Oilfield Services Ltd., Halliburton West Africa Ltd. and Halliburton Energy Services Nigeria Limited (incorporated by reference to Exhibit 10.2 to Hercules' Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-51582)).
10.29	—	Earnout Agreement, dated November 7, 2006, by and among Hercules Oilfield Services, Ltd., Halliburton West Africa Ltd. and Halliburton Energy Services Nigeria Limited (incorporated by reference to Exhibit 10.3 to Hercules' Current Report on Form 8-K dated November 7, 2006 (File No. 0-51582)).
10.30	—	Basic Form of Exchange Agreement between the Company and certain holders of our 3.375% Convertible Senior Notes due 2038 (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated June 18, 2009).
10.31	—	Purchase Agreement, dated October 8, 2009, by and among Hercules Offshore, Inc., the guarantors party thereto, UBS Securities LLC, Banc of America Securities LLC, Deutsche Bank Securities Inc. and Morgan Stanley & Co. Incorporated, as representatives of the initial purchasers named in Schedule I thereto (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated October 14, 2009).
10.32	—	Intercreditor Agreement dated as of October 20, 2009, among Hercules Offshore, Inc., the subsidiaries party thereto as guarantors, UBS AG, Stamford Branch, as Bank Collateral Agent and U.S. Bank National Association, as Notes Collateral Agent (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated October 26, 2009).
†10.33	—	Form of Restricted Stock Agreement for Executive Officers (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated March 2, 2012 (the "March 2012 8-K")).
†10.34	—	Form of Stock Option Award Agreement for Executive Officers (incorporated by reference to Exhibit 10.2 to the March 2012 8-K).
†10.35	—	Form of Restricted Stock Agreement for Non-Executive Employees and Consultants (incorporated by reference to Exhibit 10.3 to the March 2012 8-K).
†10.36	—	Form of Stock Option Award Agreement for Non-Executive Employees and Consultants (incorporated by reference to Exhibit 10.4 to the March 2012 8-K).
†10.37	—	Form of Restricted Stock Agreement for Employees (incorporated by reference to Exhibit 10.2 to the May 2014 8-K).
†10.38	—	Form of Restricted Stock Agreement for Directors (incorporated by reference to Exhibit 10.3 to the May 2014 8-K).
10.39	—	Purchase Agreement, dated March 27, 2012, by and among Hercules Offshore, Inc., the guarantors party thereto, Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC,

		Goldman, Sachs & Co. and UBS Securities LLC, as representatives of the initial purchasers named in Schedule I thereto (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated March 30, 2012).
10.40	—	Representative Supplement No. 1 dated as of April 3, 2012, among Hercules Offshore, Inc., the subsidiaries party thereto as guarantors, Deutsche Bank Trust Company Americas, as Controlling Agent for the Senior Secured Parties and Authorized Representatives for the Senior Loan Secured Parties and U.S. Bank National Association, as New Representative (incorporated by reference to Exhibit 10.1 to Hercules' Current Report on Form 8-K dated April 6, 2012).
10.41	—	Joinder, Resignation and Acknowledgment dated as of April 3, 2012, among Hercules Offshore, Inc., the subsidiaries party thereto, UBS AG, Stamford Branch, as resigning Bank Collateral Agent and as resigning Controlling Agent, and Deutsche Bank Trust Company Americas, as Authorized Representative for new Senior Loan Secured Parties, as new Bank Collateral Agent, and as new Controlling Agent (incorporated by reference to Exhibit 10.2 to Hercules' Current Report on Form 8-K dated April 6, 2012).

Table of Contents

Exhibit Number		Description
10.42	—	Purchase Agreement, dated June 28, 2013, by and among Hercules Offshore, Inc., the guarantors party thereto, Deutsche Bank Securities Inc., UBS Securities LLC, Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co. and Pareto Securities AS, as representatives of the initial purchasers named in Schedule I thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed July 2, 2013).
10.43	—	Purchase Agreement, dated September 17, 2013, by and among Hercules Offshore, Inc., the guarantors party thereto, Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., UBS Securities LLC and Capital One Securities, Inc., as representatives of the initial purchasers named in Schedule I thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 23, 2013).
10.44	—	Purchase Agreement, dated March 12, 2014, by and among Hercules Offshore, Inc., the guarantors party thereto, Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., UBS Securities LLC and Capital One Securities, Inc., as representatives of the initial purchasers named in Schedule I thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed March 18, 2014).
*21.1	—	Subsidiaries of Hercules.
*23.1	—	Consent of Ernst & Young LLP.
*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.

† Compensatory plan, contract or arrangement.

Table of Contents

(c) Financial Statement Schedules
(1) Valuation and Qualifying Accounts and Allowances

SCHEDULE II
HERCULES OFFSHORE, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND ALLOWANCES
FOR THE THREE YEARS ENDED DECEMBER 31, 2014

Description	Balance at Beginning of Period (in thousands)	Additions Charged to Expense, Net	Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 31, 2014:					
Allowance for doubtful accounts receivable	$891	$5,627	$—	$(841)	$5,677
Valuation allowance of deferred tax assets	$61,913	$62,721	$387 (a)	$—	$125,021
Year Ended December 31, 2013:					
Allowance for doubtful accounts receivable	$788	$642	$—	$(539)	$891
Valuation allowance of deferred tax assets	—	63,732	(1,819) (b)	—	61,913
Year Ended December 31, 2012:					
Allowance for doubtful accounts receivable	$11,460	$(8,847)	$—	$(1,825)	$788
Valuation allowance of deferred tax assets	—	—	—	—	—

(a) Adjustment to unrecognized tax benefit recorded net of valuation allowance.
(b) Adjustment to unrecognized tax balance in foreign jurisdiction to recognize impact of federal valuation allowance.

All other financial statement schedules have been omitted because they are not applicable or not required, or the information required thereby is included in the consolidated financial statements or the notes thereto included in this annual report.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Houston, State of Texas, on March 2, 2015.

HERCULES OFFSHORE, INC.

By: /S/ JOHN T. RYND
John T. Rynd
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on March 2, 2015.

Signatures	Title
/S/ JOHN T. RYND John T. Rynd	Chief Executive Officer and President (Principal Executive Officer)
/S/ TROY L. CARSON Troy L. Carson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/S/ THOMAS R. BATES, JR. Thomas R. Bates, Jr.	Chairman of the Board
/S/ THOMAS N. AMONETT Thomas N. Amonett	Director
/S/ SUZANNE V. BAER Suzanne V. Baer	Director
/S/ THOMAS M HAMILTON Thomas M Hamilton	Director
/S/ THOMAS J. MADONNA Thomas J. Madonna	Director
/S/ F. GARDNER PARKER F. Gardner Parker	Director
/S/ THIERRY PILENKO Thierry Pilenko	Director
/S/ STEVEN A. WEBSTER Steven A. Webster	Director