HERCULES OFFSHORE, INC.
Form 10-Q
October 24, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 0-51582

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

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

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

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

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

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

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

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

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

Common Stock, par value $0.01 per share	Outstanding as of October 21, 2013
	159,748,613

Table of Contents

TABLE OF CONTENTS

		Page
	PART I - FINANCIAL INFORMATION	
Item 1.	Financial Statements	1
	Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012	1
	Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012	2
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012	3
	Notes to Unaudited Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	43
Item 4.	Controls and Procedures	43
	PART II - OTHER INFORMATION	
Item 1.	Legal Proceedings	43
Item 1A.	Risk Factors	44
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 6.	Exhibits	45
Signatures		46

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$365,839	$259,193
Restricted Cash	2,027	2,027
Accounts Receivable, Net of Allowance for Doubtful Accounts of $607 and $788 as of September 30, 2013 and December 31, 2012, Respectively	187,812	167,936
Prepaids	30,561	16,135
Current Deferred Tax Asset	—	21,125
Other	12,584	12,191
	598,823	478,607
Property and Equipment, Net	1,772,148	1,462,755
Equity Investment	—	38,191
Other Assets, Net	32,464	37,077
	$2,403,435	$2,016,630
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term Debt and Current Portion of Long-term Debt	$—	$67,054
Accounts Payable	83,826	58,615
Accrued Liabilities	75,931	82,781
Interest Payable	43,662	17,367
Insurance Notes Payable	19,175	9,123
Other Current Liabilities	29,179	26,483
	251,773	261,423
Long-term Debt, Net of Current Portion	1,205,800	798,013
Deferred Income Taxes	4,201	56,821
Other Liabilities	19,289	17,611
Commitments and Contingencies		
Stockholders’ Equity:		
Common Stock, $0.01 Par Value; 300,000 Shares Authorized; 162,127 and 160,708 Shares Issued, Respectively; 159,747 and 158,628 Shares Outstanding, Respectively	1,621	1,607
Capital in Excess of Par Value	2,168,309	2,159,744
Treasury Stock, at Cost, 2,380 Shares and 2,080 Shares, Respectively	(55,143)	(53,100)
Retained Deficit	(1,192,415)	(1,225,489)
	922,372	882,762
	$2,403,435	$2,016,630

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)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	$225,308	$160,157	$622,959	$443,490
Costs and Expenses:				
Operating Expenses	122,728	68,523	355,539	266,503
Asset Impairment	—	60,693	—	108,216
Depreciation and Amortization	38,040	34,529	110,906	108,143
General and Administrative	19,284	14,686	59,821	37,555
	180,052	178,431	526,266	520,417
Operating Income (Loss)	45,256	(18,274)	96,693	(76,927)
Other Income (Expense):				
Interest Expense	(19,360)	(18,249)	(54,495)	(54,915)
Loss on Extinguishment of Debt	—	—	—	(9,156)
Gain on Equity Investment	—	—	14,876	—
Other, Net	(337)	676	(1,652)	764
Income (Loss) Before Income Taxes	25,559	(35,847)	55,422	(140,234)
Income Tax Benefit (Provision)	(8,400)	(1,319)	18,609	16,829
Income (Loss) from Continuing Operations	17,159	(37,166)	74,031	(123,405)
Income (Loss) from Discontinued Operations, Net of Taxes	8,093	(692)	(40,996)	(7,866)
Net Income (Loss)	25,252	(37,858)	33,035	(131,271)
Loss attributable to Noncontrolling Interest	21	—	39	—
Net Income (Loss) attributable to Hercules Offshore, Inc.	$25,273	$(37,858)	$33,074	$(131,271)
Net Income (Loss) attributable to Hercules Offshore, Inc. Per share:				
Basic:				
Income (Loss) from Continuing Operations	$0.11	$(0.23)	$0.46	$(0.81)
Income (Loss) from Discontinued Operations	0.05	(0.01)	(0.25)	(0.05)
Net Income (Loss)	$0.16	$(0.24)	$0.21	$(0.86)
Diluted:				
Income (Loss) from Continuing Operations	$0.11	$(0.23)	$0.46	$(0.81)
Income (Loss) from Discontinued Operations	0.05	(0.01)	(0.26)	(0.05)
Net Income (Loss)	$0.16	$(0.24)	$0.20	$(0.86)
Weighted Average Shares Outstanding:				
Basic	159,743	158,573	159,416	152,098
Diluted	161,851	158,573	161,472	152,098

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)
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net Income (Loss)	$33,074	$(131,271)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	121,804	126,178
Stock-Based Compensation Expense	7,464	5,141
Deferred Income Taxes	(29,792)	(33,120)
Provision (Benefit) For Doubtful Accounts Receivable	356	(8,841)
Gain on Equity Investment	(14,876)	—
Asset Impairment	44,370	108,216
Gain on Insurance Settlement	—	(30,668)
Gain on Disposal of Assets, Net	(3,140)	(24,563)
Other	4,667	7,537
(Increase) Decrease in Operating Assets -		
Accounts Receivable	(21,030)	7,992
Prepaid Expenses and Other	10,078	2,033
Increase (Decrease) in Operating Liabilities -		
Accounts Payable	23,165	9,013
Insurance Notes Payable	(21,855)	(17,151)
Other Current Liabilities	20,126	35,821
Other Liabilities	4,992	2,896
Net Cash Provided by Operating Activities	179,403	59,213
Cash Flows from Investing Activities:		
Acquisition of Assets, Net of Cash Acquired	(200,957)	(40,000)
Additions of Property and Equipment	(307,135)	(82,150)
Deferred Drydocking Expenditures	(7,519)	(9,814)
Cash Paid for Equity Investment	—	(4,288)
Insurance Proceeds Received	1,430	54,139
Proceeds from Sale of Assets, Net	107,404	49,854
Other	2,214	1,621
Net Cash Used in Investing Activities	(404,563)	(30,638)
Cash Flows from Financing Activities:		
Long-term Debt Borrowings	400,000	500,000
Long-term Debt Repayments	—	(452,909)
Redemption of 3.375% Convertible Senior Notes	(61,274)	(27,606)
Common Stock Issuance	—	96,696
Payment of Debt Issuance Costs	(8,208)	(7,717)
Other	1,288	160
Net Cash Provided by Financing Activities	331,806	108,624
Net Increase in Cash and Cash Equivalents	106,646	137,199
Cash and Cash Equivalents at Beginning of Period	259,193	134,351
Cash and Cash Equivalents at End of Period	$365,839	$271,550

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

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

1. General

Hercules Offshore, Inc., a Delaware corporation, and its majority owned subsidiaries (the “Company”) provide shallow-water drilling and marine services to the oil and natural gas exploration and production industry globally through its Domestic Offshore, International Offshore and International Liftboats segments (See Notes 5 and 11). At September 30, 2013, the Company owned a fleet of 40 jackup rigs, including Hercules Triumph (Formerly Discovery Triumph) and Hercules Resilience (Formerly Discovery Resilience) acquired from Discovery Offshore (See Note 4), 19 liftboat vessels as well as operated an additional five liftboat vessels owned by a third party (See Notes 5 and 11). The Company’s diverse fleet is capable of providing services such as oil and gas exploration and development drilling, well service, platform inspection, maintenance and decommissioning operations in several key shallow-water provinces around the world.

The consolidated financial statements of the Company are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair presentation. Certain information relating to the Company’s organization and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted in this Form 10-Q pursuant to Securities and Exchange Commission rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 and the notes thereto included in the Company’s Annual Report on Form 10-K, as amended by our current report on Form 8-K filed on August 23, 2013. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results expected for the full year.

Recast of Financial Information for Discontinued Operations

Due to the current period classification of the Domestic Liftboats and Inland segments as discontinued operations, we have recast the Company's historical information to reflect the results of operations of these two segments as discontinued operations for all periods presented. In addition, the historical results of Domestic Offshore have been recast to include the operating results of the remaining retained Inland assets and the historical results of International Liftboats have also been recast to include the operating results of the Kingfish vessel which was transferred from Domestic Liftboats in 2012 (See Note 11).

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries including the accounts of its wholly owned subsidiary Discovery Offshore S.A. (“Discovery”) from the date a majority controlling interest was acquired. All intercompany account balances and transactions have been eliminated.

2. Supplemental Financial Information

Consolidated Balance Sheet Information

Other current liabilities consisted of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Other Current Liabilities:		
Deferred Revenue - Current Portion	$19,266	$14,546
Other	9,913	11,937
	$29,179	$26,483

Equity

Changes in equity during the nine months ended September 30, 2013 are presented below:

	Stockholders' Equity	Noncontrolling Interest	Total Equity
	(in thousands)		
Balance at December 31, 2012	$882,762	$—	$882,762
Net Income (Loss)	33,074	(39)	33,035
Acquisition of Interest in Discovery	—	26,448	26,448
Acquisition of Noncontrolling Interest in Discovery	(39)	(26,409)	(26,448)
Compensation Expense Recognized	7,464	—	7,464
Repurchase of Common Stock	(2,044)	—	(2,044)
Excess Tax Benefit, Net from Stock-Based Arrangements	842	—	842
Other	313	—	313
Balance at September 30, 2013	$922,372	$—	$922,372

Common Stock Offering

In March 2012, the Company raised approximately $96.7 million in net proceeds from an underwritten public offering of 20.0 million shares of common stock at a price to the public of $5.10 per share. The Company used a portion of the net proceeds from the share offering to fund a portion of the purchase price for the acquisition of Hercules 266 and used the remaining net proceeds for general corporate purposes as well as the costs associated with the upgrade and mobilization of Hercules 266.

3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Numerator:				
Income (loss) from continuing operations	$17,159	$(37,166)	$74,031	$(123,405)
Less: Loss attributable to noncontrolling interest	21	—	39	—
Adjusted income (loss) from continuing operations	17,180	(37,166)	74,070	(123,405)
Income (loss) from discontinued operations, net of taxes	8,093	(692)	(40,996)	(7,866)
Net income (loss) attributable to Hercules Offshore, Inc.	$25,273	$(37,858)	$33,074	$(131,271)
Denominator:				
Weighted average basic shares	159,743	158,573	159,416	152,098
Add effect of stock equivalents	2,108	—	2,056	—
Weighted average diluted shares	161,851	158,573	161,472	152,098

The Company calculates basic earnings per share by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period as adjusted for the dilutive effect of the Company’s stock option and restricted stock awards. The effect of stock option and restricted stock awards is not included in the computation for periods in which a net loss occurs, because to do so would be anti-dilutive.

Table of Contents

The Company's diluted earnings per share calculation excludes 0.8 million and 0.9 million stock equivalents for the three and nine month periods ended September 30, 2013, respectively, due to their anti-dilutive effect. The Company's diluted earnings per share calculation for both the three and nine month periods ended September 30, 2012 excludes 6.2 million stock equivalents that would have potentially been included if the Company had generated net income for the period, but are excluded as the Company generated a net loss during the period.

4. Business Combination

As of December 31, 2012, the Company held a $38.2 million, or 32%, equity investment in Discovery, a development stage company whose purpose was to own new ultra high specification jackup drilling rigs. Historically, we accounted for our investment in Discovery under the equity method of accounting. On June 24, 2013, 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"). The Discovery Transaction allows the Company to enter into the high-specification jackup market and it significantly expands our service offerings to the most demanding drilling customers and opens new international markets that have growing needs for assets of this caliber. The Company began consolidating Discovery's results of operations as of the acquisition date, June 24, 2013 ("Acquisition Date"). As of September 30, 2013, the Company held a 100% interest in Discovery as a result of additional purchases of shares of Discovery common stock subsequent to the Acquisition Date 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 as a result of remeasuring the 32% equity interest in Discovery at its fair value as of the Acquisition Date in accordance with Accounting Standards Codification ("ASC") Topic 805, Business Combinations. This gain is included in Gain on Equity Investment on the Consolidated Statements of Operations for the nine month period ended September 30, 2013.

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 7), as well as deferred revenue in the amounts of $14.3 million, $3.5 million and $5.6 million, respectively, at the date of acquisition.

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

The components of the consideration transferred were as follows:

	June 24, 2013 (in thousands) (unaudited)
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

The Company accounted for this transaction as a business combination and, accordingly, the total consideration was allocated to Discovery's net tangible assets based on their estimated fair values. The Company is in the process of finalizing valuations of these net tangible assets. Therefore, these valuations are preliminary and are subject to change upon the receipt and management's review of the final valuations. Upon final valuation of the net tangible assets, the excess, if any, of the purchase price over these assets will be recorded as goodwill.

The preliminary allocation of the consideration is as follows:

	June 24, 2013 (in thousands) (unaudited)
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 Preliminary Purchase Price	$168,348

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

The following presents the consolidated financial information for the Company on a pro forma basis assuming the Discovery Transaction had occurred as of the beginning of the periods presented. The historical financial information has been adjusted to give effect to pro forma items that are directly attributable to the acquisition and factually supportable. These items include adjustments to eliminate directly related transaction costs, record noncontrolling interest, and eliminate our losses on equity investment.

The unaudited pro forma financial information set forth below has been compiled from current financial statements and historical financial statements as recast for the Company's discontinued operations and other information, but is not necessarily indicative of the results that actually would have been achieved had the transaction occurred at the beginning of the periods presented or that may be achieved in the future:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions, except per share amounts)			
Revenue	$224.0	$158.5	$615.4	$438.9
Income (Loss) from Continuing Operations	17.4	(37.4)	60.5	(124.3)
Income (Loss) from Discontinued Operations, Net of Taxes	8.1	(0.7)	(41.0)	(7.9)
Net Income (Loss)	25.5	(38.1)	19.5	(132.2)
Loss Attributable to Noncontrolling Interest	—	—	—	—
Net Income (Loss) Attributable to Hercules Offshore, Inc.	$25.5	$(38.1)	$19.5	$(132.2)
Net Income (Loss) Attributable to Hercules Offshore, Inc. Per share:				
Basic:				
Income (Loss) from Continuing Operations	$0.11	$(0.24)	$0.38	$(0.82)
Income (Loss) from Discontinued Operations	0.05	—	(0.26)	(0.05)
Net Income (Loss)	$0.16	$(0.24)	$0.12	$(0.87)
Diluted:				
Income (Loss) from Continuing Operations	$0.11	$(0.24)	$0.37	$(0.82)
Income (Loss) from Discontinued Operations	0.05	—	(0.25)	(0.05)
Net Income (Loss)	$0.16	$(0.24)	$0.12	$(0.87)

The amount of revenue and net loss of Discovery included in the Consolidated Statements of Operations for the three and nine months ended September 30, 2013 is as follows:

	Three Months Ended September 30, 2013	June 24, 2013 through September 30, 2013
	(in millions)	
Revenue	$—	$—
Net loss	(1.8)	(1.9)

The Company incurred transaction costs in the amount of $0.3 million and $3.3 million for the three and nine months ended September 30, 2013 related to the Discovery Transaction. These transaction costs are included in General and Administrative on the Consolidated Statements of Operations.

5. 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 nine months ended September 30, 2013 and 2012:

Asset		Segment	Period of Sale	Proceeds (in thousands)	Gain/(Loss) (a)
2013:					
	Various (b)	Domestic Liftboats	July 2013	$54,447	$—
	Various (c)	Inland	July 2013	44,331	—
	Hercules 27	Inland	August 2013	5,149	4,834
				$103,927	$4,834
2012:					
	Hercules 2501	Domestic Offshore	June 2012	$7,000	$5,465
	Hercules 29	Inland	July 2012	900	770
	Platform Rig 3 (d)	International Offshore	August 2012	35,516	18,350
	Hercules 101	Domestic Offshore	September 2012	1,200	—
				$44,616	$24,585

(a) Gains (Losses) on the Domestic Liftboats and Inland segments are reflected in the Consolidated Statement of Operations as discontinued operations.

(b) The Company completed the sale of its U.S. Gulf of Mexico liftboats and related assets.

(c) The Company completed the sale of eleven inland barge rigs and related assets.

(d) This represents the gain on the sale of Platform Rig 3 and related legal entities.

Discontinued Operations

In May 2013, the Company entered into an agreement to sell eleven inland barge rigs, comprising the majority of the Inland segment fleet, and related assets for $45 million, and in July 2013 the Company closed on the sale of these Inland assets. Additionally, in August 2013, the Company sold the Hercules 27 inland barge for approximately $5.1 million. In the second quarter of 2013, the Company recorded an impairment charge of $40.9 million ($40.7 million, net of tax) related to the sale of the Inland barges. The results of operations of the Inland segment are reflected in the Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 as discontinued operations.

In June 2013, the Company entered into an agreement to sell its U.S. Gulf of Mexico Liftboats and related assets. As a result of this transaction, the Company recorded an impairment charge of $3.5 million ($3.5 million, net of tax) in the second quarter of 2013. On July 1, 2013, the Company closed on the sale of the liftboats and related assets and received proceeds of approximately $54.4 million. The results of operations of the Domestic Liftboats segment are reflected in the Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 as discontinued operations.

Interest charges have been allocated to the discontinued operations of the Inland and Domestic Liftboat segments in accordance with FASB ASC 205-20, Discontinued Operations. The interest was allocated based on a pro rata calculation of the net assets sold as compared to the Company's consolidated net assets. Interest allocated to discontinued operations of the Inland segment was $0.1 million and $1.4 million for the three and nine months ended September 30, 2013, respectively, and $0.9 million and $2.8 million for the three and nine months ended September 30, 2012, respectively. Interest allocated to discontinued operations of the Domestic Liftboat segment was $1.2 million for the nine months ended September 30, 2013 and $0.7 million and $2.1 million for the three and nine months ended September 30, 2012, respectively.

Table of Contents

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

Operating results included in discontinued operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Inland:				
Revenue	$1,510	$7,363	$15,782	$19,907
Income (Loss) Before Income Taxes	$5,192	$(3,168)	$(39,481)	$(12,245)
Income Tax Benefit	2,397	1,273	2,571	4,920
Income (Loss) from Discontinued Operations, Net of Taxes	$7,589	$(1,895)	$(36,910)	$(7,325)
Domestic Liftboats:				
Revenue	$—	$17,368	$29,625	$43,761
Income (Loss) Before Income Taxes	$504	$1,866	$(4,086)	$(839)
Income Tax Benefit (Provision)	—	(663)	—	298
Income (Loss) from Discontinued Operations, Net of Taxes	$504	$1,203	$(4,086)	$(541)
Total:				
Revenue	$1,510	$24,731	$45,407	$63,668
Income (Loss) Before Income Taxes	$5,696	$(1,302)	$(43,567)	$(13,084)
Income Tax Benefit	2,397	610	2,571	5,218
Income (Loss) from Discontinued Operations, Net of Taxes	$8,093	$(692)	$(40,996)	$(7,866)

6. Debt

Debt is comprised of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
8.75% Senior Notes, due July 2021	$400,000	$—
7.125% Senior Secured Notes, due April 2017	300,000	300,000
10.5% Senior Notes, due October 2017	295,184	294,503
10.25% Senior Notes, due April 2019	200,000	200,000
3.375% Convertible Senior Notes, due June 2038	7,106	67,054
7.375% Senior Notes, due April 2018	3,510	3,510
Total Debt	1,205,800	865,067
Less Short-term Debt and Current Portion of Long-term Debt	—	67,054
Total Long-term Debt, Net of Current Portion	$1,205,800	$798,013

Senior Secured Credit Agreement

On April 3, 2012, the Company entered into a credit agreement (the "Credit Agreement"), which governs its senior secured revolving credit facility (the "Credit Facility"). On July 8, 2013, the Company amended its Credit Agreement to increase the senior secured revolving credit facility to $150.0 million from $75.0 million and the sublimit for the issuance of letters of credit to $50.0 million from $25.0 million. As of September 30, 2013, no amounts were outstanding and $1.0 million in letters of credit had been issued under the Credit Facility, therefore the remaining availability under this facility was $149.0 million.

Prior to July 8, 2013, borrowings under the Credit Facility bore 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

10

0.5%, or the one-month Eurodollar rate (as defined in the Credit Agreement) plus 1%), plus an applicable margin that ranged between 3.0% and 4.5%, depending on the Company's leverage ratio, or (ii) the Eurodollar rate plus an applicable margin that ranged between 4.0% and 5.5%, depending on the Company's leverage ratio. The Company paid a per annum fee on all letters of credit issued under the Credit Facility, which fee equaled the applicable margin for loans accruing interest based on the Eurodollar rate, and the Company paid a commitment fee of 0.75% per annum on the unused availability under the Credit Facility.

In addition, 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.

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.

July 2013 Credit Amendment

The amendment to the Credit Agreement, among other things:

- increased the senior secured revolving credit facility to $150.0 million (subject to certain limitations which restrict borrowing to $75.0 million while the 10.5% Senior Notes due 2017 are outstanding);
- extended the maturity date of the Credit Facility to July 8, 2018;
- increased the sublimit for the issuance of letters of credit to $50.0 million;
- allowed for an increase in aggregate commitments of up to $50.0 million;
- reduced the applicable margin for ABR Loans to a range between 1.5% and 3.0% depending on the Company's total leverage ratio;
- reduced the applicable margin for Eurodollar Loans to a range between 2.5% and 4.0% depending on the Company's total leverage ratio; and
- reduced the per annum commitment fee on unused availability under the Credit Facility to 0.50%.

The Company incurred costs of $1.1 million related to the amendment of its Credit Agreement.

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. Interest on the notes will accrue from and including July 8, 2013 at a rate of 8.75% per year and is payable semi-annually in arrears on January 15 and July 15 of each year, beginning January 15, 2014.

The 8.75% Senior Notes are guaranteed by each of the Guarantors that guarantee the Company's obligations under its Credit Agreement.

Prior to July 15, 2016, the Company may redeem the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to 108.75% 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 July 15, 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.

11

On or after July 15, 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 July 15 of the years indicated:

Year	Optional Redemption Price	
2017	104.375	%
2018	102.188	%
2019 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.

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 will accrue from and including October 1, 2013 at a rate of 7.5% per year and is payable semi-annually in arrears on April 1 and October 1 of each year, beginning April 1, 2014.

The 7.5% Senior Notes are guaranteed by each of the Guarantors that guarantee the Company's obligations under its Credit Agreement.

Prior to October 1, 2016, the Company may redeem the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to 107.5% 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 October 1, 2016, 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 October 1, 2016, 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 October 1 of the years indicated:

Year	Optional Redemption Price	
2016	105.625	%
2017	103.750	%
2018	101.875	%
2019 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.

10.5% Senior Notes due 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 due 2017. Senior notes totaling approximately $253.6 million were tendered as of September 30, 2013 and 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 due 2021. The Company expects to use the remaining net proceeds from the 7.5% Senior Notes due 2021 offering, together with cash on hand, to redeem the remaining $46.4 million aggregate principal amount of the 10.5% Senior Notes in November 2013 for approximately $48.8 million.

3.375% Convertible Senior Notes due 2038

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 $27.6 million aggregate principal amount of the 3.375% Convertible Senior Notes, resulting in a loss of $1.3 million that is included in Loss on Extinguishment of Debt in the Consolidated Statements of Operations for the nine months ended September 30, 2012. 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 stockholders' equity.

On May 1, 2013, the Company 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 tender offer.

Other Indenture Provisions

The Credit Agreement as well as the indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 7.125% Senior Secured Notes, 10.25% Senior Notes, 10.5% Senior Notes and 3.375% Convertible Senior Notes contain customary events of default. In addition, the Credit Agreement as well as the indentures governing the 8.75% Senior Notes, 7.5% Senior Notes, 7.125% Senior Secured Notes, 10.25% Senior Notes, 10.5% Senior Notes and 3.375% Convertible Senior Notes 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) permits 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, 7.125% Senior Secured Notes, 10.25% Senior Notes and 10.5% 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;
- 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.

The indenture governing the 10.5% Senior Notes provides that all the liens securing the notes may be released if the Company's total amount of secured indebtedness, other than the 10.5% Senior Notes, does not exceed the lesser of $375.0 million and 15.0% of its consolidated tangible assets. We refer to such a release as a “collateral suspension.” When a collateral suspension is in effect, the 10.5% Senior Notes due 2017 become unsecured. Following the closing

of the 2012 debt issuances and the use of proceeds thereof to repay in full the prior secured credit facility, the liens securing the 10.5% Senior Notes were released on April 3, 2012 and a collateral suspension is currently in effect. The indenture governing the 10.5% Senior Notes also provides that if, after any such collateral suspension, the aggregate principal amount of our total secured indebtedness, other than the 10.5% Senior Notes due 2017, were to exceed the greater of $375.0 million and 15.0% of our consolidated tangible assets, as defined in such indenture, then the collateral obligations of the Company and guarantors thereunder will be

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reinstated and must be complied with within 30 days of such event.

Substantially all of the Company's domestic subsidiaries guarantee the obligations under the Credit Agreement, the 8.75% Senior Notes, 7.5% Senior Notes, 7.125% Senior Secured Notes, 10.25% Senior Notes and 10.5% Senior Notes.

The Company's obligations under the Credit Agreement and 7.125% Senior Secured Notes are secured on an equal and ratable first priority basis by liens on a majority of its vessels and substantially all of its other personal property.

7. Derivative Instruments

Warrants

Previously the Company was issued warrants to purchase up to 5.0 million additional shares of Discovery stock at a strike price of 11.50 NOK per share which was exercisable in the event that the Discovery stock price reached an average equal to or higher than 23.00 NOK per share for 30 consecutive trading days. The warrants were being accounted for as a derivative instrument as the underlying security was readily convertible to cash. Subsequent changes in the fair value of the warrants were recognized to other income (expense). The fair value of the Discovery warrants was determined using a Monte Carlo simulation (See Note 8). On June 24, 2013, the derivative asset was adjusted to a fair value of $3.5 million and included as a purchase adjustment in connection with the purchase of a controlling interest in Discovery (see Note 4).

The following table provides the fair values of the Company’s derivatives:

Balance Sheet Classification	Fair Value December 31, 2012 (in thousands)
Derivatives:	
Warrants	$3,964
Other Assets, Net	$3,964

The following table provides the effect of the Company’s derivatives on the Consolidated Statements of Operations:

	Three Months Ended September 30,			Nine Months Ended September 30,		
		2013	2012		2013	2012
Derivatives	I.	II.		I.	II.	
		(in thousands)			(in thousands)	
Warrants	Other Income (Expense)	$—	$847	Other Income (Expense)	$(424)	$1,080

I. Classification of Gain (Loss) Recognized in Income (Loss) on Derivative
II. Amount of Gain (Loss) Recognized in Income (Loss) on Derivative

8. Fair Value Measurements

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s view of market assumptions in the absence of observable market information. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses the fair value hierarchy included in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820-10, Fair Value Measurements and Disclosure ("ASC 820-10"), 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.

The fair value of the warrants was determined using a Monte Carlo simulation based on the following assumptions:

	June 24, 2013	December 31, 2012
Strike Price (NOK)	11.50	11.50
Target Price (NOK)	23.00	23.00
Stock Value (NOK)	15.00	13.00
Expected Volatility (%)	40.0 %	50.0 %
Risk-Free Interest Rate (%)	1.42 %	1.44 %
Expected Life of Warrants (5 years at inception)	2.6	3.1
Number of Warrants	5,000,000	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 and December 31, 2012. 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 (see Note 4).

The following table represents the Company’s derivative asset measured at fair value on a recurring basis as of December 31, 2012:

	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)
	(in thousands)			
Warrants - as of December 31, 2012	$3,964	$—	$3,964	$—

The carrying value and fair value of the Company’s equity investment in Discovery was $38.2 million and $49.1 million at December 31, 2012, respectively. The fair value at December 31, 2012 was calculated using the closing price of Discovery shares (Level 1 input), converted to U.S. dollars using the exchange rate. In June 2013, as a result of the acquisition of a controlling interest in Discovery, the Company began consolidating the results of Discovery and discontinued accounting for the investment as an equity investment (See Note 4).

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 nine months ended September 30, 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)

(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 Inland and Domestic Liftboats segments.

Long-lived assets held for sale at June 30, 2013 were written down to their fair value less estimated cost to sell, resulting in 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 Inland and Domestic Liftboats segments, respectively. The impairment charges are included in Discontinued Operations on the Consolidated Statements of Operations for the nine months ended September 30, 2013 (See Note 5).

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 nine months ended September 30, 2012:

	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)	$9,340	$—	$7,840	$1,500	$(60,693)
Property and Equipment, Net (2)	$1,500	$—	$—	$1,500	$(42,916)

(1) This represents a non-recurring fair value measurement made at September 30, 2012 for Hercules 252 and Hercules 258.
(2) This represents a non-recurring fair value measurement made at June 30, 2012 for Hercules 185.

Long-lived assets held for sale at September 30, 2012 were written down to their fair value less estimated cost to sell, resulting in an 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 three and nine months ended September 30, 2012, related to Hercules 252. The sale of Hercules 252 was completed in October 2012.

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 does not reasonably expect to market this rig in the foreseeable future. This decision resulted in an 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 three and nine months ended September 30, 2012, to write the rig down to salvage value based on a third party estimate. The financial information for Hercules 258 has been reported as part of the International Offshore segment.

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. The Company believed it was unfeasible to repair the damage and return the rig to service and recorded an 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 nine months ended September 30, 2012 to write the rig down to salvage value. In addition, the Company incurred $4.6 million ($3.0 million, net of tax) related to the write-off of the unamortized deferred costs associated with the Hercules 185 contract which is included in Asset Impairment on the Consolidated Statements of Operations for the nine months ended September 30, 2012.

Fair Value of Financial Instruments

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

The fair value of the Company’s 3.375% Convertible Senior Notes, 8.75% Senior Notes, 10.25% Senior Notes, 10.5% 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.

Table of Contents

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

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
8.75% Senior Notes, due July 2021	$400.0	$427.0	$—	$—
7.125% Senior Secured Notes, due April 2017	300.0	320.1	300.0	317.1
10.5% Senior Notes, due October 2017	295.2	317.6	294.5	326.6
10.25% Senior Notes, due April 2019	200.0	224.8	200.0	219.6
3.375% Convertible Senior Notes, due June 2038	7.1	7.1	67.1	68.5
7.375% Senior Notes, due April 2018	3.5	3.5	3.5	3.3

9. Long-Term Incentive Awards

Stock-based Compensation

The Company's 2004 Amended and Restated Long-Term Incentive Plan (the "2004 Plan") provides for the granting of stock options, restricted stock, phantom stock, performance stock awards and other stock-based awards to selected employees and non-employee directors of the Company. At September 30, 2013, approximately 4.3 million shares were available for grant or award under the 2004 Plan.

During the nine months ended September 30, 2013, the Company granted the following equity awards:

- Time-based awards The Company granted 0.7 million time-based restricted stock awards to employees which vest 1/3 per year and 0.1 million time-based restricted stock awards to the Company's Directors which vest on the date of the Company's 2014 Annual Meeting of Stockholders. The grant-date fair value per share for these time-based restricted stock awards is equal to the closing price of the Company's stock on the grant date, which was a weighted-average grant date fair value of $6.81 and a grant date fair value of $7.13 for the awards granted in the nine months ended September 30, 2013 to employees and the Company's Directors, respectively.
- Objective-based awards The Company granted additional compensation awards to employees that are based on the Company's achievement of certain Company-based performance objectives as well as the Company's achievement of certain market-based objectives. These awards, 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 CEO's portion of these awards, the portion payable in cash is based on the achievement of certain market-based and Company-based performance objectives being met at levels slightly below target levels when combined. The fair value of all awards requiring share settlement is measured at the fair value on the grant date, while those requiring cash settlement are remeasured at the end of each reporting period.

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 the Company's stock price are valued using a Monte Carlo simulation. The Company uses various assumptions to estimate the fair value of the Company's objective-based awards. The Company uses the historical volatility of its common stock to estimate volatility while the dividend yield assumptions are based on historical and anticipated dividend payouts. The risk-free interest rate assumptions are based on observed interest rates consistent with the approximate vesting periods and the stock price used represents the closing price of the Company's common stock at the valuation date.

10. Income Taxes

The Company, directly or through its subsidiaries, files income tax returns in the United States, and multiple state and foreign jurisdictions. The Company’s tax returns for 2006 through 2012 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, certain tax returns filed by TODCO and its subsidiaries are open for years prior to 2004; however, TODCO 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 2006 through 2012.

Effective April 27, 2011, the Company completed the Seahawk Transaction. The Company's financial statements were historically prepared assuming this transaction should be treated as a purchase of assets for tax purposes. Seahawk is in a Chapter 11 proceeding in the U.S. Bankruptcy Court. In February 2013, at the direction of the Court, Seahawk made certain distributions to its equity holders. These distributions, taken together with other aspects of the acquisition, changed the tax treatment and caused the Seahawk Transaction to be characterized as a reorganization pursuant to IRC §368(a)(1)(G). Therefore, the Company recorded a carryover basis in the Seahawk assets and other tax attributes. Because of the ownership change certain of these carryovers may be subject to specific, and in some cases an annual, limitation on their utilization. The Company recognized a valuation allowance as appropriate. These carryover attributes recognized include net operating losses of $186.7 million, tax credits of $17.1 million, and tax basis in assets of $70.0 million. The Company recorded deferred tax assets, net of a valuation allowance, of approximately $37.7 million in the first quarter 2013. There can be no assurance that these deferred tax assets will be realized.

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. While we cannot predict or provide assurance regarding the outcome of these proceedings, we do not expect the ultimate liability to have a material effect on our consolidated financial statements.

11. 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 Domestic Liftboats and Inland segments are reflected in the Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 as discontinued operations. The financial information of the Company's discontinued operations is not included in the results of operations presented for the Company's reporting segments (See Note 5). The remaining assets of the Inland segment, which included spare equipment, one cold stacked barge and a barge that will be used as a training rig, have been transferred to the Domestic Offshore segment and the historical results of Domestic Offshore have been recast to include the operating results of these assets. In 2012, the Company transferred one vessel, Kingfish, from its Domestic Liftboats segment to its International Liftboats segment. The historical results generated by the Kingfish, that were previously reported in the Domestic Liftboats segment are reported in the International Liftboats segment. As a result of this transfer, the historical results of International Liftboats have also been recast to include the operating results of this asset.

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 March 2012, the Company acquired an offshore jackup drilling rig, Hercules 266, for $40.0 million. The Company has entered into a three-year drilling contract with Saudi Aramco for the use of this rig with Saudi Aramco having an option to extend the term for an additional one-year period. This rig completed upgrades and other contract specific refurbishments and commenced work in April 2013.

During November 2012, the decision was made to reactivate one of the Company's previously cold stacked rigs, Hercules 209. This rig underwent repairs and upgrades for reactivation and commenced work in May 2013.

In March 2013, the Company acquired the offshore drilling rig Hercules 267 for $55.0 million. In addition, the Company signed a three-year rig commitment with Cabinda Gulf Oil Company Limited for the use of Hercules 267. The rig is expected to commence work in the fourth quarter of 2013.

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

In March 2013, the Company acquired the liftboat Bull Ray for $42.0 million. The liftboat commenced work in West Africa in March 2013.
As a result of the Discovery Transaction (See Note 4), Hercules Triumph and Hercules Resilience are included in the Company's International Offshore segment. The Company entered into a contract with Cairn India Limited for use of the Hercules Triumph in the Indian Ocean which is expected to commence in late October 2013. Hercules Resilience was delivered in October 2013 but remains in the shipyard for the installation of additional equipment.
Information regarding the Company's reportable segments is as follows:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Revenue	Income (Loss) from Operations (in thousands)	Depreciation and Amortization	Revenue	Income (Loss) from Operations (in thousands)	Depreciation and Amortization
Domestic Offshore	$138,975	$44,349	$19,811	$387,088	$124,205	$59,291
International Offshore	46,309	2,507	12,768	126,836	(12,995)	35,555
International Liftboats	40,024	12,804	4,721	109,035	27,893	13,872
	$225,308	$59,660	$37,300	$622,959	$139,103	$108,718
Corporate	—	(14,404)	740	—	(42,410)	2,188
Total Company	$225,308	$45,256	$38,040	$622,959	$96,693	$110,906

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Revenue	Income (Loss) from Operations (in thousands)	Depreciation and Amortization	Revenue	Income (Loss) from Operations (in thousands)	Depreciation and Amortization
Domestic Offshore (a)	$92,277	$(16,941)	$19,678	$264,663	$(1,112)	$57,930
International Offshore (b)	37,090	3,513	10,360	85,210	(68,970)	35,087
International Liftboats	30,790	6,499	3,819	93,617	26,538	13,189
	$160,157	$(6,929)	$33,857	$443,490	$(43,544)	$106,206
Corporate	—	(11,345)	672	—	(33,383)	1,937
Total Company	$160,157	$(18,274				