

HERCULES OFFSHORE, INC.

Form 10-Q

August 04, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2006

or

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

Commission file number: 0-51582

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**HERCULES OFFSHORE, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

56-2542838  
(I.R.S. Employer  
Identification No.)

11 Greenway Plaza, Suite 2950  
Houston, Texas  
(Address of principal executive offices)

77046  
(Zip Code)

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(713) 979-9300

(Registrant's telephone number, including area code)

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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  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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 August 1, 2006

31,880,750

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**HERCULES OFFSHORE, INC.**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HERCULES OFFSHORE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)****(Unaudited)**

	<b>June 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 64,570	\$ 47,575
Accounts receivable, net	59,257	38,484
Deposits	51	33
Assets held for sale	2,040	2,040
Insurance claims receivable	13,166	5,919
Prepaid expenses and other	3,839	6,160
Total current assets	142,923	100,211
PROPERTY AND EQUIPMENT, net	339,336	247,443
OTHER ASSETS, net	10,045	7,171
Total assets	\$ 492,304	\$ 354,825
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 1,400	\$ 1,400
Accounts payable	21,157	13,281
Accrued liabilities	12,065	11,165
Taxes payable	2,051	122
Interest payable	1,928	1,759
Other current liabilities	750	2,401
Total current liabilities	39,351	30,128
LONG-TERM DEBT, net of current portion	92,550	93,250
DEFERRED INCOME TAXES	33,311	15,504
OTHER LIABILITIES	625	
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY</b>		
Common stock, par value \$0.01 per share; 200,000 shares authorized; 31,881 and 30,243 shares issued and outstanding	319	302
Additional paid-in capital	239,240	184,698
Restricted stock (unearned compensation)		(1,322)
Accumulated other comprehensive income	1,274	476
Retained earnings	85,634	31,789
Total stockholders equity	326,467	215,943

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Total liabilities and stockholders equity	\$ 492,304	\$ 354,825
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The accompanying notes are an integral part of these statements.

**Table of Contents****HERCULES OFFSHORE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share data)

(Unaudited)

	<b>Three Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>REVENUES</b>		
Contract drilling services	\$ 42,567	\$ 26,288
Marine services	33,730	10,787
	76,297	37,075
<b>COSTS AND EXPENSES</b>		
Operating expenses for contract drilling services, excluding depreciation and amortization	13,822	12,095
Operating expenses for marine services, excluding depreciation and amortization	12,438	5,847
Depreciation and amortization	7,551	2,860
General and administrative, excluding depreciation and amortization	6,601	2,904
	40,412	23,706
<b>OPERATING INCOME</b>	<b>35,885</b>	<b>13,369</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(2,163)	(2,534)
Loss on early retirement of debt		(2,786)
Other, net	1,520	101
<b>INCOME BEFORE INCOME TAXES</b>	<b>35,242</b>	<b>8,150</b>
<b>INCOME TAX PROVISION</b>		
Current income tax	(8,005)	
Deferred income tax	(4,304)	
<b>NET INCOME</b>	<b>\$ 22,933</b>	<b>\$ 8,150</b>
<b>EARNINGS PER SHARE (SEE NOTE 2):</b>		
Basic	\$ 0.73	\$ 0.34
Diluted	\$ 0.70	\$ 0.34
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (SEE NOTE 2):</b>		
Basic	31,570,354	23,922,850
Diluted	32,829,076	24,243,018

The accompanying notes are an integral part of these statements.

**Table of Contents****HERCULES OFFSHORE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share data)

(Unaudited)

	Six Months Ended June 30,	
	2006	2005
<b>REVENUES</b>		
Contract drilling services	\$ 69,564	\$ 51,179
Marine services	62,866	19,951
	132,430	71,130
<b>COSTS AND EXPENSES</b>		
Operating expenses for contract drilling services, excluding depreciation and amortization	24,929	23,336
Operating expenses for marine services, excluding depreciation and amortization	23,267	10,427
Depreciation and amortization	13,485	5,322
General and administrative, excluding depreciation and amortization	13,187	5,105
	74,868	44,190
<b>OPERATING INCOME</b>	<b>57,562</b>	<b>26,940</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(4,249)	(4,837)
Gain on disposal of asset	29,580	
Loss on early retirement of debt		(2,786)
Other, net	1,823	235
<b>INCOME BEFORE INCOME TAXES</b>	<b>84,716</b>	<b>19,552</b>
<b>INCOME TAX PROVISION</b>		
Current income tax	(13,492)	
Deferred income tax	(17,379)	
<b>NET INCOME</b>	<b>\$ 53,845</b>	<b>\$ 19,552</b>
<b>EARNINGS PER SHARE (SEE NOTE 2):</b>		
Basic	\$ 1.74	\$ 0.82
Diluted	\$ 1.68	\$ 0.81
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (SEE NOTE 2):</b>		
Basic	30,909,517	23,821,044
Diluted	32,126,429	24,020,647

The accompanying notes are an integral part of these statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 53,845	\$ 19,552
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,485	5,322
Stock based compensation expense	1,461	
Deferred income taxes	17,379	
Amortization of deferred financing fees	327	492
Provision for bad debts	160	319
Loss on early retirement of debt		2,786
Gain on disposal of asset	(29,580)	
(Increase) decrease in operating assets		
Increase in accounts receivable	(20,933)	(8,707)
Increase in insurance claims receivable	(8,892)	
Decrease in prepaid expenses and other	1,455	1,659
Increase (decrease) in operating liabilities		
Increase in accounts payable	7,876	1,713
Increase in other current liabilities	5,829	2,949
Increase in other liabilities	625	
<b>Net cash provided by operating activities</b>	<b>43,037</b>	<b>26,085</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(118,936)	(87,374)
Deferred drydocking expenditures	(6,534)	(2,230)
Insurance proceeds received	50,090	
Decrease (increase) in deposits	(18)	1,750
<b>Net cash used in investing activities</b>	<b>(75,398)</b>	<b>(87,854)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings		185,000
Payment of debt	(700)	(101,000)
Proceeds from issuance of common stock	54,199	
Proceeds from exercise of stock options	221	
Payment of debt issuance costs	(632)	(5,636)
(Distributions to) contributions from members	(3,732)	4,329
<b>Net cash provided by financing activities</b>	<b>49,356</b>	<b>82,693</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>16,995</b>	<b>20,924</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>47,575</b>	<b>14,460</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 64,570</b>	<b>\$ 35,384</b>

The accompanying notes are an integral part of these statements.



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**HERCULES OFFSHORE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(In thousands)

<b>Common Stock Shares</b>	<b>Additional Paid-In Capital</b>	<b>Restricted Stock</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
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