HERCULES OFFSHORE, INC.
Form S-1/A
April 11, 2006
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**As filed with the Securities and Exchange Commission on April 11, 2006**

**Registration No. 333-132728**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**Amendment No. 2**

**to**

# FORM S-1

## REGISTRATION STATEMENT

***UNDER***

***THE SECURITIES ACT OF 1933***

# HERCULES OFFSHORE, INC.

**(Exact name of registrant as specified in its charter)**

| | | |
|---|---|---|
| **Delaware** | **1381** | **56-2542838** |
| **(State or other jurisdiction of incorporation or organization)** | **(Primary Standard Industrial Classification Code Number)** | **(I.R.S. Employer Identification No.)** |

**11 Greenway Plaza, Suite 2950**

**Houston, Texas 77046**

**(713) 979-9300**

**(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)**

**Steven A. Manz**

**Chief Financial Officer**

**Hercules Offshore, Inc.**

**11 Greenway Plaza, Suite 2950**

**Houston, Texas 77046**

**(713) 979-9300**

**(Name, address, including zip code, and telephone number,**

**including area code, of agent for service)**

***Copies to:***

**David L. Emmons**

**Tull R. Florey**

**Baker Botts L.L.P.**

**910 Louisiana Street**

**One Shell Plaza**

**Houston, Texas 77002-4995**

**(713) 229-1234**

**T. Mark Kelly**

**Douglas E. McWilliams**

**Vinson & Elkins L.L.P.**

**1001 Fannin Street**

**2300 First City Tower**

**Houston, Texas 77002-6760**

**(713) 758-2222**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

**CALCULATION OF REGISTRATION FEE**

| **Title of Each Class of Securities to be Registered** | **Amount to be Registered(1)** | **Proposed Maximum Offering Price Per Share(2)** | **Proposed Maximum Aggregate Offering Price(2)** | **Amount of Registration Fee** |
|---|---|---|---|---|
| Common Stock, par value $0.01 per share | 9,200,000 | $ 31.31 | $ 288,052,000 | $ 30,822(3) |
| Rights to Purchase Series A Junior Participating Preferred Stock(4) | | | | |

(1) Includes shares of common stock subject to an over-allotment option granted to the underwriters.
(2) Estimated solely for the purpose of calculating the registration fee under Rule 457(c) of the Securities Act and based upon the average high and low sale prices for one share of common stock on March 22, 2006, as reported by the NASDAQ National Market.
(3) Previously paid.
(4) The rights to purchase Series A Junior Participating Preferred Stock initially will be attached to and trade with the shares of common stock being registered hereby. The value attributed to such rights, if any, is reflected in the market price of the common stock. Accordingly, no separate registration fee is payable with respect thereto.

**The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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SUBJECT TO COMPLETION, DATED APRIL 11, 2006

# 8,000,000 Shares

# Hercules Offshore, Inc.

# Common Stock

We are selling 1,600,000 shares of our common stock and the selling stockholders are selling 6,400,000 shares of our common stock. Our common stock is listed on the NASDAQ National Market under the symbol HERO. The last reported sale price of our common stock on the NASDAQ National Market on April 10, 2006 was $37.12 per share. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

The underwriters have an option to purchase a maximum of 1,200,000 additional shares from the selling stockholders to cover over-allotments of shares.

As described in this prospectus, in order to enable us to comply with U.S. shipping laws, our certificate of incorporation limits to 20% the aggregate ownership of our common stock by non-United States citizens.

**Investing in our common stock involves risks. See Risk Factors beginning on page 10.**

| | Price to | Underwriting Discounts and | Proceeds to Hercules | Proceeds to Selling Stockholders |
|---|---|---|---|---|

| | Public | Commissions | | |
|---|---|---|---|---|
| Per Share | $ | $ | $ | $ |
| Total | $ | $ | $ | $ |

Delivery of the shares of common stock will be made on or about , 2006.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Credit Suisse** **Citigroup**

**Deutsche Bank Securities**

**Hibernia Southcoast Capital**

**Howard Weil Incorporated**

**Jefferies & Company**

**Simmons & Company**

**International**

**UBS Investment Bank**

The date of this prospectus is , 2006.

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**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

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**Industry and Market Data**

In this prospectus, we rely on and refer to information regarding our industry from the U.S. Energy Information Administration, the U.S. Minerals Management Service, Bloomberg L.P., John S. Herold, Inc. and ODS-Petrodata, Inc. Erland P. Bassoe and Jonathan Fairbanks, selling stockholders in the offering, are affiliates of ODS-Petrodata. These organizations are not affiliated with us and are not aware of and have not consented to being named in this prospectus. We believe this information is reliable. In addition, in many cases we have made statements in this prospectus regarding our industry and our position in the industry based on our experience in the industry and our own evaluation of market conditions.

**Non-GAAP Financial Measures**

The body of accounting principles generally accepted in the United States is commonly referred to as GAAP. A non-GAAP financial measure is generally defined by the U.S. Securities and Exchange Commission, or SEC, as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. In this prospectus, we disclose Adjusted EBITDA, a non-GAAP financial measure. Adjusted EBITDA is calculated as net income before interest expense, taxes, depreciation and amortization and loss on early retirement of debt. Adjusted EBITDA is not a substitute for the GAAP measures of earnings and cash flow.

**Financial Statements**

We were formed in July 2004 to provide drilling and liftboat services to the oil and natural gas exploration and production industry. Since our formation, we have acquired our fleet of jackup rigs and liftboats in a number of separate asset acquisitions, including the acquisition of:

- five jackup rigs and the assumption of the management of another jackup rig in August 2004;
- 22 liftboats in October 2004;
- two jackup rigs in January 2005, one of which we had been managing since August 2004;
- 17 liftboats, one of which we have sold, and a jackup rig in June 2005;
- a newly constructed liftboat and an additional jackup rig in August and September 2005, respectively;
- seven liftboats in November 2005, four of which are currently operating offshore Nigeria; and

a jackup rig in February 2006.

As a result of our recent formation, we have limited operating history upon which you can base an evaluation of our current business and our future earnings prospects. This prospectus includes audited financial statements only as of and for the period from inception (July 27, 2004) to December 31, 2004 and as of and for the year ended December 31, 2005. In this prospectus, we refer to the period from inception (July 27, 2004) to December 31, 2004 as the period from inception to December 31, 2004. We have not completed or provided in this prospectus any stand-alone pre-acquisition financial statements for the assets we acquired in the transactions described above. As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisition History and Financial Statement Presentation, we have concluded that we are not required to include such pre-acquisition financial statements in this prospectus, and we do not believe that separate audited financial statements for the assets we acquired for any date or period prior to our acquisition of those assets would be meaningful to investors. As a result, and given our recent date of formation, we have not provided in this prospectus three years of audited financial statements that normally would be included in a prospectus forming part of an SEC registration statement.

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**PROSPECTUS SUMMARY**

*This summary highlights selected information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that is important to you or that you should consider before investing in our common stock. You should read carefully the entire prospectus, including the risk factors, financial data and financial statements included herein, and the documents we incorporate by reference before making a decision about whether to invest in our common stock. Unless the context requires otherwise or we specifically indicate otherwise, the information in this prospectus assumes that the underwriters do not exercise their over-allotment option, and the terms Hercules, our company, we, our, ours and us refer to Hercules Offshore, Inc. and its subsidiaries.*

**Our Company**

We provide shallow-water drilling and liftboat services to the oil and natural gas exploration and production industry primarily in the U.S. Gulf of Mexico. We currently own a fleet of nine jackup rigs that are capable of drilling in maximum water depths ranging from 85 to 250 feet and a fleet of 46 liftboats with leg lengths ranging from 105 to 260 feet. In the U.S. Gulf of Mexico, we have the fourth-largest fleet of jackup rigs operating in water depths of 250 feet and less and the largest fleet of liftboats with leg lengths greater than 100 feet. We contract our jackup rigs and liftboats to major integrated energy companies and independent oil and natural gas operators.

Our 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. Our rigs are used primarily for exploration and development drilling in the shallow waters of the U.S. Gulf of Mexico. Six of our jackup rigs have a cantilever design that permits the drilling platform to be extended out from the hull to perform drilling or workover operations over certain types of preexisting platforms or structures. Three of our jackup rigs have a slot-type design, which requires drilling operations to take place through a slot in the hull. Historically, jackup rigs with a cantilever design have maintained higher levels of utilization than rigs with a slot-type design, which are primarily used for exploratory drilling. However, one of our slot-type rigs has a competitive advantage in very shallow water as it is one of the few jackup rigs in the world that can drill in water depths as shallow as nine feet.

The following table contains information regarding our jackup rig fleet as of March 1, 2006.

| Rig Name(1) | Type | Maximum/Minimum Water Depth Rating (feet) | Rated Drilling Depth (feet)(2) | Location | Status |
|---|---|---|---|---|---|
| 11 | Mat-supported, cantilever | 200/21 | 20,000(3) | U.S. Gulf of Mexico | Contracted |
| 15 | Independent leg, slot | 85/9 | 20,000 | U.S. Gulf of Mexico | Contracted |
| 16 | Independent leg, cantilever | 170/16 | 16,000 | Middle East | Shipyard |
| 20 | Mat-supported, cantilever | 100/20 | 25,000 | U.S. Gulf of Mexico | Contracted |
| 21 | Mat-supported, cantilever | 120/22 | 20,000 | U.S. Gulf of Mexico | Shipyard |
| 22 | Mat-supported, cantilever | 173/22 | 15,000 | U.S. Gulf of Mexico | Contracted |
| 26 | Independent leg, cantilever | 150/12 | 16,000 | U.S. Gulf of Mexico | Shipyard |
| 30 | Mat-supported, slot | 250/25 | 20,000 | U.S. Gulf of Mexico | Contracted |

| | | | | | |
|---|---|---|---|---|---|
| 31 | Mat-supported, slot | 250/25 | 20,000 | Asia | Shipyard |

(1) The table does not include *Rig 25*, which was severely damaged in connection with Hurricane Katrina and is no longer operable. We expect to receive approximately $48.8 million under our insurance policies related to the rig, and we are attempting to salvage some of its equipment.

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

(3) Rated workover depth. *Rig 11* is currently configured for workover activity, which includes maintenance and repair or modification of wells that have already been drilled and completed to enhance or resume the well s production.

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*Rig 16* is undergoing a major refurbishment and upgrade in a shipyard in the United Arab Emirates. On February 23, 2006, we entered into a letter of intent to contract *Rig 16* for work offshore Qatar. The letter of intent is conditioned upon, among other things, the completion of a definitive drilling contract. Under the letter of intent, the dayrate would escalate from a rate of $49,500, which would apply from the date of the customer s acceptance of the rig to May 31, 2006. From June 1, 2006 until the end of the contract term, the dayrate would be $69,500. We would also receive a stand-by rate of $30,000 per day, commencing on the date of the letter of intent and continuing until the earlier of the acceptance of the rig or May 1, 2006. The term of the contract would be two years commencing on the date the rig is under tow from the shipyard and is accepted by the customer. The customer may terminate the contract, and not pay the stand-by rate, if the rig is not under tow from the shipyard and accepted by June 1, 2006.

*Rig 21* is undergoing refurbishment in a shipyard in Mississippi primarily for repairs of damage sustained during Hurricane Katrina. We expect to complete the repairs and the other refurbishment work in the second quarter of 2006. *Rig 26* is undergoing a major refurbishment and upgrade in a shipyard in Louisiana. We expect to complete the work on *Rig 26* in the first quarter of 2007.

*Rig 31* is undergoing a major refurbishment and upgrade in a shipyard in Malaysia. On March 31, 2006, we entered into a letter of award to contract *Rig 31* for work offshore India. The letter of award is conditioned upon, among other things, the completion of a definitive drilling contract. The drilling contract, if completed, would cover the drilling of seven wells with five one-well options, and would commence in September 2006. The dayrate under the contract would be $110,000 for the first well and $140,000 for each additional well.

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. Once a liftboat is in position, typically adjacent to an offshore production platform or well, third-party service providers perform inspection, maintenance or construction service on the platform or well. 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. The following table contains information regarding our liftboat fleet as of March 1, 2006.

| **Leg Length/ Liftboat Class (feet)** | **Number of Liftboats(1)** | **Average Deck Area (square feet)** | **Average Maximum Deck Load (pounds)** |
|---|---|---|---|
| 260 | 1 | 8,170 | 729,000 |
| 229-230 | 3 | 5,100 | 666,667 |
| 190-215 | 4 | 4,331 | 675,000 |
| 140-170 | 8 | 2,564 | 245,625 |
| 120-130 | 16 | 1,791 | 134,500 |
| 105 | 14 | 1,346 | 107,143 |

(1) The table does not include the liftboats we have agreed to acquire from Laborde Marine Lifts, Inc., subject to the terms and conditions of our purchase agreement with Laborde. See Recent Developments.

We generally contract our jackup rigs and liftboats under daily rental agreements that provide for a fixed rental rate while operating, which we refer to as a dayrate. To date, most of our contracts in the U.S. Gulf of Mexico have been on a short-term basis of less than one year. Our contracts in international markets have been longer-term.

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## Our Industry and Recent Trends

The drilling and liftboat service industry is cyclical and typically driven by general economic activity and changes in actual or anticipated oil and natural gas prices. In general, demand for our rigs is correlated to our customers expectations of energy prices, particularly natural gas prices. As a result, we expect that sustained high energy prices generally would have a positive impact on our earnings, whereas sustained low energy prices generally would have a negative impact on our earnings. Demand for liftboats historically has been less cyclical than demand for jackup rigs, although demand for liftboats and for jackup rigs generally is affected by the same factors. We believe that recent trends in the industry, including the following, should benefit our operations:

- favorable commodity price environment relative to historical levels;
- growing U.S. demand for natural gas and maturing natural gas fields;
- increasing capital budgets of oil and natural gas producers;
- reduced supply of jackup rigs in the U.S. Gulf of Mexico; and
- aging production infrastructure in the U.S. Gulf of Mexico.

For further information on our industry and recent trends, please read Industry Overview.

## Our Strengths

We believe our operations benefit from a number of competitive strengths, including the following:

- ***Favorable Niche Position in the U.S. Gulf of Mexico Shallow-Water Jackup Rig Market.*** We believe that our fleet of jackup rigs fills an important niche in the shallow-water drilling market of the U.S. Gulf of Mexico. Three of our rigs have design features making them capable of working in special drilling situations encountered in the U.S. Gulf of Mexico.
- ***Leading Provider of Liftboat Services in the U.S. Gulf of Mexico.*** We operate the largest fleet of liftboats in the U.S. Gulf of Mexico with leg lengths greater than 100 feet. Our liftboat fleet comprises a broad range of liftboat sizes and capabilities and is deployed across the major producing areas of the U.S. Gulf of Mexico continental shelf.
- ***Operation of Jackup Rigs and Liftboats Provides Balance to Our Business.*** Utilization and dayrates for jackup rigs, which are used primarily for exploration and development drilling, tend to be more closely correlated with oil and natural gas price expectations and drilling activity levels than utilization and dayrates for liftboats, which are typically used throughout the life of an oil and natural gas

field. We believe that our liftboats help us balance our exposure to commodity prices and drilling activity levels that we experience with our jackup rigs.

***Strong Relationships with a Diversified Customer Base.*** Our customer base provides exposure to the spending patterns of major integrated energy companies, which are more stable, and of smaller independent exploration and production companies, which are more commodity-driven and subject to wider fluctuations. We benefit from our management s long-standing relationships with many of our customers, and in some instances, we have developed preferred service provider relationships with our clients.

***Experienced and Incentivized Management Team.*** Our senior and operating level management team has extensive industry experience in the U.S. Gulf of Mexico and internationally, with an average of approximately 25 years of experience in the oil service industry. We believe that their considerable knowledge of and experience in our industry enhances our ability to operate effectively throughout industry cycles. Our management also has substantial experience in identifying and completing asset acquisitions. Our incentive compensation plans are designed to align our management s interests with our operating, financial and safety performance.

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For further information on our strengths, please read Business Our Strengths.

### Our Strategies

Our goal is to be a leading provider of drilling and liftboat services, primarily in shallow water markets, to the oil and natural gas exploration and production industry. We intend to employ the following strategies to achieve our goal:

- ***Focus on Drilling and Liftboat Services.*** As one of the largest operators of shallow-water jackup rigs and liftboats in the U.S. Gulf of Mexico, we believe we are well-positioned to benefit from any increased levels of drilling and production maintenance activity. We also intend to continue pursuing expansion opportunities in international markets with characteristics similar to the shallow-water U.S. Gulf of Mexico, such as West Africa, the Middle East and the Asia-Pacific region.

- ***Maintain Our Status as an Efficient, Low-Cost Service Provider.*** We strive to maintain an organizational structure and asset base that allow us to be an efficient, low-cost service provider in the industry. Because of the smaller rig and crew sizes required to operate our jackup fleet as compared to higher specification assets, we believe our rigs have an operating and capital cost advantage. In addition, our liftboat operations are organized to allow for the integration of future liftboat acquisitions without significant incremental overhead.

- ***Pursue Strategic Growth Opportunities.*** We believe that opportunities remain to acquire shallow-water rigs from service providers that are more focused on higher specification assets needed to service customers operating in the deepwater market segment or drilling complex ultra-deep wells. We also believe that opportunities exist to acquire liftboats from smaller-scale operators as those operators may opt for consolidation given the economic and operational advantages associated with operating a larger fleet. From time to time, we review, and may have outstanding bids or be in discussions with potential sellers regarding, possible acquisitions of assets or other similar transactions. Any such acquisitions may require significant capital commitments.

- ***Remain Financially Disciplined and Conservative.*** We use return on capital employed in evaluating new investments and intend to pursue only those investments that we believe will produce strong returns on capital employed throughout an entire industry cycle. Furthermore, we intend to maintain a conservative capital structure and sufficient liquidity to operate throughout the industry cycle.

For further information on our strategies, please read Business Our Strategies.

### Risks Related to Our Business and Our Strategies

Prospective investors should carefully consider the matters described under Risk Factors, including that our business depends on the level of activity in the oil and natural gas industry; our business is concentrated in the shallow-water U.S. Gulf of Mexico, where market conditions are highly cyclical and subject to rapid change; our industry is highly competitive, with intense price competition; our business involves numerous operating hazards, including loss or damage from severe weather; and our acquisition strategy may be unsuccessful. One or more of these matters could negatively impact our business and our ability to implement successfully our business strategies.

**Recent Developments**

***Initial Public Offering.*** We completed our initial public offering of 10,580,000 shares of common stock at $20.00 per share on November 1, 2005. We offered 6,250,000 shares of common stock, while the remaining 4,330,000 shares were offered by selling stockholders. We received approximately $115.1 million of proceeds from the offering, net of underwriting discounts and commissions and estimated expenses. We used $44.0 million of the proceeds to complete the acquisition of a fleet of seven liftboats in November 2005. In addition,

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we repaid $45.0 million of the senior secured term loan plus accrued interest of $0.3 million. We used the remaining proceeds for the refurbishment of and upgrades to *Rig 16* and *Rig 31* and the acquisition of *Rig 26*.

***Acquisition of Rig 26.*** In February 2006, we acquired the jackup rig *Rig 26* for a purchase price of $20.1 million. This rig is capable of drilling in water depths of up to 150 feet. We are currently refurbishing the rig in a shipyard in Louisiana and expect to spend approximately $20.0 million on that refurbishment. We expect the rig to be available in the first quarter of 2007. We intend to seek work for the rig under a longer-term contract in a suitable international location.

***Liftboat Acquisition from Laborde.*** On April 3, 2006, we agreed to acquire five liftboats from Laborde Marine Lifts, Inc. ( Laborde ). In addition, we have agreed to assume the construction of an additional liftboat pursuant to a construction agreement to be assigned to us by Laborde at the closing. The total purchase price to be paid in connection with the transaction is $52.0 million. The purchase price will be reduced by the total amount remaining due under the construction agreement as of the closing date. We expect to close the transaction in the second quarter of 2006.

The liftboats, including the liftboat under construction, have leg lengths ranging from 105 to 200 feet and are located in the U.S. Gulf of Mexico. We intend to integrate the liftboats into our existing liftboat operations and seek work for them in the U.S. Gulf of Mexico or suitable international locations.

We intend to apply the $48.8 million of expected insurance proceeds related to *Rig 25* to the purchase price in the Laborde transaction. The balance would be paid from cash on hand, which may include net proceeds to us from this offering. The acquisition is subject to various closing conditions that may not be satisfied, and we may not complete the acquisition in the second quarter or at all.

***Recent Hurricanes.*** Two of our jackup rigs, *Rig 21* and *Rig 25*, sustained damage during Hurricane Katrina. *Rig 21* sustained substantial damage to its mat and was moved to a shipyard in Mississippi to repair the damage. We expect that the cost to repair *Rig 21* will be within insured values and that the rig will be available in the second quarter of 2006. *Rig 25* was severely damaged in connection with Hurricane Katrina and is no longer operable. We expect to receive approximately $48.8 million under our insurance policies related to the rig, and we are attempting to salvage some of its equipment. None of our rigs or liftboats sustained any material damage during Hurricane Rita.

**Principal Executive Offices**

Our principal executive offices are located at 11 Greenway Plaza, Suite 2950, Houston, Texas 77046, and our telephone number is (713) 979-9300. Our corporate website address is *www.herculesoffshore.com*. The information contained in or accessible from our corporate website is not part of this prospectus.

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**The Offering**

| | |
|---|---|
| Common stock offered by us | 1,600,000 shares |
| Common stock offered by the selling stockholders | 6,400,000 shares |
| Common stock to be outstanding after the offering | 31,852,750 shares |
| Common stock held by the selling stockholders after the offering | 12,865,400 shares (11,665,400 shares if the underwriters exercise the over-allotment option in full). |
| Use of proceeds | We estimate that the net proceeds to us from this offering, after deducting underwriter discounts and commissions and our estimated offering expenses, will be approximately $56.0 million. We intend to use the net proceeds from this offering to repay a portion of the amounts outstanding under our term loan and for other corporate purposes, which may include the refurbishment of *Rig 26* and *Rig 31* and the acquisition and refurbishment of additional rigs and liftboats (including the Laborde liftboats). We will not receive any proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds. |
| Over-allotment option | The selling stockholders have granted the underwriters a 30-day option to purchase a maximum of 1,200,000 additional shares of our common stock at the price to public set forth on the cover page of this prospectus to cover over-allotments, if any. |
| Risk factors | You should consider carefully all of the information set forth in this prospectus and, in particular, the specific factors set forth under Risk Factors below, before deciding whether to invest in our common stock. |
| Dividend policy | We do not intend to declare or pay regular dividends on our common stock in the foreseeable future. |
| NASDAQ National Market symbol for our common stock | HERO |

The number of shares of our common stock to be outstanding after this offering excludes 2,370,100 shares of common stock reserved for issuance under our 2004 long-term incentive plan, of which options to purchase 1,839,500 shares at a weighted average exercise price of $11.38 per share had been issued as of December 31, 2005.

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**Summary Consolidated Financial Data**

We have derived the following consolidated financial information as of and for the period from inception to December 31, 2004 and as of and for the year ended December 31, 2005 from our audited consolidated financial statements included elsewhere in this prospectus.

We were formed in July 2004 and commenced operations in August 2004. From our formation to December 31, 2005, we completed several significant asset acquisitions that impact the comparability of our historical financial results. Our financial results reflect the impact of the assets only after the date of their acquisition. This prospectus does not include any financial information relating to the assets for periods prior to their acquisition date. As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisition History and Financial Statement Presentation, we have concluded that we are not required to include such pre-acquisition financial statements in this prospectus, and we believe that separate audited financial statements for the assets we acquired as of any date or for any period prior to our acquisition of those assets would not be meaningful to investors.

In addition, in connection with our initial public offering, we converted from a Delaware limited liability company to a Delaware corporation on November 1, 2005. Prior to the conversion, our owners elected to be taxed at the member unitholder level rather than at the company level. As a result, we did not recognize any tax provision on our income prior to the conversion. Upon completion of the conversion, we recorded a tax provision of $12.1 million related to the recognition of deferred taxes equal to the tax effect of the difference between the book and tax basis of our assets and liabilities as of the effective date of the conversion.

You should read the following information in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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| | Year Ended December 31, 2005 | Period from Inception to December 31, 2004 |
|---|---|---|
| | (dollars in thousands, except per share data) | |
| **INCOME STATEMENT DATA:** | | |
| Revenues: | | |
| Drilling services | $ 103,422 | $ 24,006 |
| Marine services | 57,912 | 7,722 |
| Total revenues | 161,334 | 31,728 |
| Costs and Expenses: | | |
| Operating expenses for drilling services, excluding depreciation and amortization | 48,330 | 12,799 |
| Operating expenses for marine services, excluding depreciation and amortization | 29,484 | 4,198 |
| Depreciation and amortization | 13,790 | 2,016 |
| General and administrative, excluding depreciation and amortization | 13,871 | 2,808 |
| Total costs and expenses | 105,475 | 21,821 |
| Operating Income | 55,859 | 9,907 |
| Other Income (Expense): | | |
| Interest expense | (9,880) | (2,070) |
| Loss on early retirement of debt | (4,078) | |
| Other, net | 924 | 228 |
| Income Before Income Taxes | 42,825 | 8,065 |
| Income Tax Provision | | |
| Current income tax | (122) | |
| Deferred income tax | (15,247) | |
| Net Income | $ 27,456 | $ 8,065 |
| Net Income Per Share: | | |
| Basic | $ 1.10 | $ 0.55 |
| Diluted | $ 1.08 | $ 0.55 |
| Weighted Average Shares Outstanding: | | |
| Basic | 24,919,273 | 14,698,724 |
| Diluted | 25,431,822 | 14,689,724 |
| **BALANCE SHEET DATA (as of end of period):** | | |
| Cash and cash equivalents | $ 47,575 | $ 14,460 |
| Working capital | 70,083 | 30,283 |
| Total assets | 354,825 | 132,156 |
| Long-term debt, net of current portion | 93,250 | 53,000 |
| Total stockholders equity | 215,943 | 71,087 |
| **OTHER FINANCIAL DATA:** | | |
| Adjusted EBITDA(1) | $ 70,573 | $ 12,151 |
| Net cash provided by (used in): | | |
| Operating activities | 52,763 | (6,495) |
| Investing activities | (172,953) | (96,274) |
| Financing activities | 153,305 | 117,229 |
| Capital expenditures | 168,038 | 94,443 |

| | | |
|---|---|---|
| Deferred drydocking expenditures | 7,369 | 601 |
| **OPERATING DATA:** | | |
| Contract Drilling Services Segment: | | |
| Number of rigs (as of end of period) | 9 | 5 |
| Average revenue per rig per day(2) | $ 47,177 | $ 32,098 |
| Rig utilization(3) | 94.9% | 99.6% |
| Domestic Marine Services Segment: | | |
| Number of liftboats (as of end of period) | 42 | 22 |
| Average revenue per liftboat per day(2) | $ 6,503 | $ 5,720 |
| Liftboat utilization(3) | 78.1% | 68.9% |
| International Marine Services Segment: | | |
| Number of liftboats (as of end of period) | 4 | |
| Average revenue per liftboat per day(2) | $ 10,243 | |
| Liftboat utilization(3) | 100.0% | |

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(1) Adjusted EBITDA consists of net income before interest expense, taxes, depreciation and amortization and loss on early retirement of debt. See Non-GAAP Financial Measures. Adjusted EBITDA is included in this prospectus because our management considers it an important supplemental measure of our performance and believes that it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry, some of which present EBITDA and Adjusted EBITDA when reporting their results. We regularly evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates by using Adjusted EBITDA. In addition, we utilize Adjusted EBITDA in evaluating acquisition targets. Management also believes that Adjusted EBITDA is a useful tool for measuring our ability to meet our future debt service, capital expenditures and working capital requirements, and Adjusted EBITDA is commonly used by us and our investors to measure our ability to service indebtedness. Adjusted EBITDA is not a substitute for the GAAP measures of earnings or of cash flow and is not necessarily a measure of our ability to fund our cash needs. In addition, it should be noted that companies calculate EBITDA and Adjusted EBITDA differently and, therefore, Adjusted EBITDA as presented for us may not be comparable to EBITDA and Adjusted EBITDA reported by other companies. Adjusted EBITDA has material limitations as a performance measure because it excludes interest expense, taxes, depreciation and amortization and loss on early retirement of debt. The following tables reconcile Adjusted EBITDA with our net income and with our net cash provided by (used in) operating activities.

**Reconciliation of Adjusted EBITDA**

| | Year Ended December 31, 2005 | Period from Inception to December 31, 2004 |
|---|---|---|
| | (dollars in thousands) | |
| Net income | $ 27,456 | $ 8,065 |
| Plus: interest expense | 9,880 | 2,070 |
| Plus: income tax provision | 15,369 | |
| Plus: depreciation and amortization | 13,790 | 2,016 |
| Plus: loss on early retirement of debt | 4,078 | |
| Adjusted EBITDA | 70,573 | 12,151 |
| Less: interest expense | (9,880) | (2,070) |
| Less: income tax provision | (15,369) | |
| Plus: amortization of deferred financing fees | 890 | 215 |
| Plus: allowance for doubtful accounts | (519) | 519 |
| Plus: stock based compensation expense | 78 | |
| Plus: deferred income taxes | 15,247 | |
| Less: increase in current assets | (28,184) | (22,379) |
| Plus: increase in current liabilities | 19,927 | 5,069 |
| Net cash (used in) provided by operating activities | $ 52,763 | $ (6,495) |

(2) Average revenue per rig or liftboat per day in the table above and elsewhere in this prospectus is defined as revenue earned by our rigs or liftboats, as applicable, in the period divided by the total number of days our rigs or liftboats, as applicable, were under contract, known as operating days, in the period.

(3) Utilization for our fleet shown in the table above and elsewhere in this prospectus is defined as the total number of operating days for our rigs or liftboats, as applicable, 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, which included *Rig 16*, *Rig 21*, *Rig 25*, *Rig 31* and the *Whale Shark*, or cold-stacked units, which included three of our liftboats, 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.

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# RISK FACTORS

*You should carefully consider each of the following risks and all of the information set forth in this prospectus and in the documents we incorporate by reference before deciding to invest in our common stock. If any of the following risks and uncertainties develop into actual events, our business, financial condition, results of operations or cash flows could be materially adversely affected. In that case, the trading price of our common stock could decline and you may lose all or part of your investment.*

*This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us described below. See Forward-Looking Information.*

## Risks Related to Our Business

***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 in oil and natural gas exploration, development and production primarily in the U.S. Gulf of Mexico, and in particular, the level of exploration, development and production expenditures of our customers. Oil and natural gas prices and our customers expectations of potential changes in these prices significantly affect this level of activity. In particular, changes in the price of natural gas materially affect our operations because drilling in the shallow-water U.S. Gulf of Mexico is primarily focused on developing and producing natural gas reserves. Oil and natural gas prices are extremely volatile. Since mid-December 2005, natural gas prices have declined sharply. Commodity prices are affected by numerous factors, including the following:

- the demand for oil and natural gas in the United States and elsewhere;
- the cost of exploring for, producing and delivering oil and natural gas;
- economic and weather conditions in the United States and elsewhere;
- expectations regarding future prices;
- advances in exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain production levels and pricing;

- the level of production in non-OPEC countries;
- the policies of various governments regarding exploration and development of their oil and natural gas reserves; and
- 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 and other oil and natural gas producing regions or further acts of terrorism in the United States, or elsewhere.

Depending on the market prices of oil and natural gas, companies exploring for oil and natural gas may cancel or curtail their drilling programs, thereby reducing demand for drilling services. Any reduction in the demand for drilling and liftboat services may materially erode dayrates and utilization rates for our units, which would adversely affect our financial condition and results of operations.

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***Our business is concentrated in the shallow-water U.S. Gulf of Mexico, where market conditions are highly cyclical and subject to rapid change. The mature nature of this region could result in less drilling activity in the area, thereby reducing demand for our services.***

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 intensify the competition in the industry and often result in rigs or liftboats being idle for long periods of time. We may be required to idle rigs or liftboats or enter into lower dayrate contracts in response to market conditions in the future. In the U.S. Gulf of Mexico, contracts are generally short term, and oil and natural gas companies tend to respond quickly to upward or downward changes in prices. Due to the short-term nature of most of our contracts, changes in market conditions can quickly affect our business. In addition, customers generally have the right to terminate our contracts with little or no notice, and without penalty. As a result of the cyclicality of our industry, we expect our results of operations to be volatile.

In addition, 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. According to the U.S. Energy Information Administration, the average size of the U.S. Gulf of Mexico discoveries has declined significantly since the early 1990s. 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. Dayrates also depend on the supply of vessels. Generally, excess capacity puts downward pressure on dayrates. Excess capacity can occur when newly constructed vessels enter the market, when vessels are mobilized between market areas and when non-marketed vessels are re-activated. Many other companies in the drilling industry are larger than we are and have more diverse fleets, or fleets with generally higher specifications, and greater resources than we have. In addition, the competitive environment has intensified as recent mergers among oil and natural gas companies have reduced the number of available customers. Finally, competition among shallow-water drilling and marine service providers is also affected by each provider s reputation for safety and quality. We may not be able to maintain our competitive position, and we believe that competition for contracts will continue to be intense in the foreseeable future. Our inability to compete successfully may reduce our profitability.

***Our business involves numerous operating hazards, 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. 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 equipment involved and injury or death to rig or liftboat personnel. 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.

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In addition, our drilling and liftboat operations are subject to perils peculiar to 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, such as Hurricane Rita in September 2005, Hurricane Katrina in August 2005 and Hurricane Ivan in September 2004, could have a material adverse effect on our operations. During such severe storms, our liftboats typically leave location and cease to earn a full dayrate. Under U.S. Coast Guard guidelines, the liftboats cannot return to work until the weather improves and seas are less than five feet.

In August 2005, two of our jackup rigs, *Rig 21* and *Rig 25*, sustained damage during Hurricane Katrina. *Rig 25* was severely damaged in connection with Hurricane Katrina and is no longer operable. We expect to receive approximately $48.8 million under our insurance policies related to the rig, and we are attempting to salvage some of its equipment. *Rig 21* suffered extensive damage to its mat as a result of the storm, and we expect that the rig will not be available for service until the second quarter of 2006. In addition, our liftboats were required to leave location during Hurricanes Katrina and Rita and did not earn any dayrate for an average of five days per vessel.

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 not totally insurable.

As a result of a number of recent catastrophic events like the terrorist attacks on September 11, 2001 and Hurricanes Ivan, Katrina and Rita, insurance underwriters increased insurance premiums for many of the coverages historically maintained and issued general notices of cancellation and significant changes for a wide variety of insurance coverages. The oil and natural gas industry suffered extensive damage from Hurricanes Ivan, Katrina and Rita. As a result, we anticipate that our insurance costs will increase significantly after the end of our current policy period in July 2006. It is likely that insurers will require higher retention levels and will limit the amount of insurance proceeds that are available after a major wind storm in the event that our rigs or liftboats experience damage. If storm activity in 2006 is as severe as it was in 2005, insurance underwriters may no longer insure U.S. Gulf of Mexico assets against weather-related damage. A number of our customers that produce oil and natural gas have previously maintained business interruption insurance for their production. This insurance 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.

If a significant accident or other event resulting in damage to our rigs or liftboats, including severe weather, terrorist acts, war, civil disturbances, 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.

***A single customer accounts for a significant portion of our revenues, the loss of which could adversely affect our financial condition and results of operations.***

We derive a significant amount of our revenue from a single major integrated energy company. Chevron Corporation represented approximately 33.1% and 28.6% of our drilling services revenues for the period from inception to December 31, 2004 and the year ended December 31, 2005, respectively. Chevron represented approximately 40.1% and 33.6% of our domestic marine services revenues for the period from inception to December 31, 2004 and the year ended December 31, 2005, respectively. Our financial condition and results of operations will be materially adversely affected if Chevron curtails its activities in the U.S. Gulf of Mexico or Nigeria, terminates its contracts with us, fails to renew its existing contracts or refuses to award new contracts to us and we are unable to enter into contracts with new customers at comparable dayrates.

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***Re-activation of non-marketed rigs or liftboats, mobilization of rigs or liftboats back to the U.S. Gulf of Mexico or new construction of rigs or liftboats could result in excess supply in the region, and our dayrates and utilization could be reduced.***

If market conditions continue to improve, inactive rigs and liftboats that are not currently being marketed could be reactivated to meet an increase in demand, and the recent hurricanes have resulted in the reactivation of a number of shallow-water rigs that have been cold-stacked for the past several years. Improved market conditions, particularly relative to other markets, could also lead to jackup rigs, other mobile offshore drilling units and liftboats being moved into the U.S. Gulf of Mexico or could lead to increased construction and upgrade programs by our competitors. Some of our competitors have already announced plans to upgrade existing equipment or build additional jackup rigs with higher specifications than our rigs. According to ODS-Petrodata, as of February 2006, 51 jackup rigs had been ordered by industry participants, national oil companies and financial investors for delivery through 2009. As of March 2006, we believe there were also ten liftboats under construction or on order in the United States that may be used in the U.S. Gulf of Mexico. A significant increase in the supply of jackup rigs, other mobile offshore drilling units or liftboats could adversely affect both our utilization and dayrates.

***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 are currently refurbishing *Rig 16*, a rig that we recently acquired and that has not worked for approximately six years. We also are refurbishing the recently acquired *Rig 26* and *Rig 31*. We expect to spend a total of approximately $44.3 million in refurbishment costs for *Rig 16, Rig 26* and *Rig 31* prior to placing the rigs into service. In addition, *Rig 21*, which suffered extensive damage to its mat as a result of Hurricane Katrina, was moved into a shipyard to repair the damage it sustained.

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 key equipment 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, particularly steel;
- unforeseen engineering problems;
- unanticipated actual or purported change orders;
- work stoppages;

financial or other difficulties at shipyards;

adverse weather conditions; and

inability to obtain required permits or approvals.

Significant cost overruns or delays would adversely affect our financial condition and results of operations. Additionally, capital expenditures for rig upgrade and refurbishment projects could exceed our planned capital expenditures.

***Our 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. Particularly during market downturns when there is decreased rig demand, higher specification rigs may be

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more likely to obtain contracts than lower specification jackup rigs such as ours. 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 U.S. Gulf of Mexico, our ability to move them to other regions in response to changes in market conditions is limited. Furthermore, in recent years, an increasing amount of exploration and production expenditures have been 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.

***Our acquisition strategy may be unsuccessful if we incorrectly predict operating results, are unable to identify and complete future acquisitions, fail to successfully integrate acquired assets or businesses we acquire, or are unable to obtain financing for acquisitions on acceptable terms.***

The acquisition of assets or businesses that are complementary to our drilling and liftboat operations is an important component of our business strategy. We believe that acquisition opportunities may arise from time to time, and any such acquisition could be significant. At any given time, discussions with one or more potential sellers may be at different stages. For instance, we have recently signed an agreement with Laborde to acquire five liftboats and one liftboat under construction. However, any such discussions may not result in the consummation of an acquisition transaction and we may not be able to identify or complete any acquisitions. In addition, we cannot predict the effect, if any, that any announcement or consummation of an acquisition, including the Laborde 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.

In addition, we may not be able to obtain, on terms we find acceptable, sufficient financing that may be required for any such acquisition or investment.

If we are unsuccessful in completing acquisitions of other operations or assets, our financial condition could be adversely affected and we may be unable to implement an important component of our business strategy successfully. In addition, 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 employ a sufficient number of skilled workers or an increase in labor costs could hurt our operations.***

We require skilled personnel to operate and provide technical services and support for our rigs and liftboats. In periods of increasing activity and when the number of operating units in the U.S. Gulf of Mexico increases, either because of new construction, re-activation of idle units or the mobilization of units into the region, shortages of qualified personnel could arise, creating upward pressure on wages and difficulty in staffing our units. In addition, our ability to expand our operations depends in part upon our ability to increase the size of our skilled labor force. We will need to hire additional vessel-based employees in connection with the commencement of operations of *Rig 16, Rig 26* and *Rig 31*, and possibly in connection with the Laborde acquisition if completed. Moreover, our labor costs increased significantly in 2005, and we anticipate that this trend will continue in 2006.

Although our 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

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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 may add to our costs or limit drilling activity and liftboat operations.***

Our operations are affected in varying degrees by governmental laws and regulations. The industries in which we operate are dependent on demand for services from the oil and natural gas industry and, accordingly, are also affected by changing tax and other laws relating to the energy business generally. We are also subject to the jurisdiction of the United States Coast Guard, the National Transportation Safety Board and the United States Customs and Border Protection Service, as well as private industry organizations such as the American Bureau of Shipping. We may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of those authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. Similarly, our international operations are subject to certain international conventions and the laws, regulations and standards of other foreign countries in which we operate. It is also possible that these conventions, laws, regulations and standards may in the future add significantly to our operating costs or limit our activities.

In addition, as our vessels age, the costs of drydocking the vessels in order to comply with government laws and regulations and to maintain their class certifications are expected to increase, which could have an adverse effect on our financial condition and results of operations.

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

Our operations are subject to 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. For example, as an operator of mobile offshore drilling units and liftboats 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. 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.

***Our business would be adversely affected if we failed to comply with the provisions of U.S. law on coastwise trade, or if those provisions were modified, repealed or waived.***

We are subject to U.S. federal laws that restrict maritime transportation, including liftboat services, between points in the United States to vessels built and registered in the United States and owned and manned by U.S. citizens. We are responsible for monitoring the ownership of our common stock. If we do not comply with these restrictions, we would be prohibited from operating our liftboats in U.S. coastwise trade, and under certain circumstances we would be deemed to have undertaken an unapproved foreign transfer, resulting in severe penalties, including permanent loss of U.S. coastwise trading rights for our liftboats, fines or forfeiture of the liftboats.

During the past several years, interest groups have lobbied Congress to repeal these restrictions to facilitate foreign flag competition for trades currently reserved for U.S.-flag vessels under the federal laws. We believe that interest groups may continue efforts to modify or repeal these laws currently benefiting U.S.-flag vessels. If these efforts are successful, it could result in increased competition, which could adversely affect our results of operations.

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***We will be subject to additional political, economic, and other uncertainties as we expand our international 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 and the Asia-Pacific region, including India. We currently own four liftboats operating offshore Nigeria, and we are marketing three of our jackup rigs to work in international markets following completion of refurbishment and upgrade projects on the rigs. 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 or nationalization of assets;
- damage to our equipment or violence directed at our employees;
- increased operating costs;
- modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage in certain areas;
- import-export quotas;
- confiscatory taxation;
- restrictions on currency repatriations;
- currency fluctuations and devaluations; and
- other forms of government regulation and economic conditions that are beyond our control.

As our international operations expand, the exposure to these risks will increase. Our financial condition and results of operations could be susceptible to adverse events beyond our control that may occur in the particular country or region in which we are active.

***Our debt could adversely affect our ability to operate our business and make it difficult to meet our debt service obligations.***

As of December 31, 2005, we have total outstanding debt of approximately $94.7 million. This debt represents approximately 30.5% of our total capitalization. We have up to $25 million of available capacity under our revolving credit facility, under which we may continue to borrow to fund working capital or other needs in the near term. Our debt and the limitations imposed on us by our existing or future debt agreements could have significant consequences on 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;
- we may be exposed to risks inherent in interest rate fluctuations because our borrowings generally are at variable rates of interest, which would result in higher interest expense in the event of increases in interest rates; and
- we could be more vulnerable in the event of a downturn in our business that would leave us less able to take advantage of significant business opportunities and to react to changes in our business and in market or industry conditions.

Our ability to make payments on and to refinance our indebtedness 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 commitments, and any insufficiency could negatively impact our business. To the extent we are unable to repay our indebtedness as it becomes due or at maturity with cash on hand or from other sources, we will need to refinance our debt, sell assets or repay the debt with the proceeds

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from further 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.

***Our senior secured credit agreement imposes significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities and taking some actions.***

Our senior secured credit agreement imposes significant operating and financial restrictions on us. These restrictions limit our ability to:

- make investments and other restricted payments, including dividends;
- incur additional indebtedness;
- create liens;
- restrict dividend or other payments by our subsidiaries to us;
- sell our assets or consolidate or merge with or into other companies;
- engage in transactions with affiliates; and
- make capital expenditures.

These limitations are subject to a number of important qualifications and exceptions. Our credit agreement also requires us to maintain a minimum interest coverage ratio and a maximum leverage ratio. These covenants may adversely affect our ability to finance our future operations and capital needs and to pursue available business opportunities. A breach of any of these covenants could result in a default in respect of the related debt. If a default were to occur, the relevant lenders could elect to declare the debt, together with accrued interest and other fees, immediately due and payable and proceed against any collateral securing that debt.

**Risks Related to Our Limited Operating History**

***Because we have a limited operating history and we have not provided three years of audited financial statements that normally would be required in an SEC registration statement, you may not be able to evaluate our current business and future earnings prospects accurately.***

We were formed in July 2004 to provide drilling and liftboat services to the oil and natural gas exploration and production industry. As a result, we have limited operating history upon which you can base an evaluation of our current business and our future earnings prospects.

In addition, this prospectus includes audited financial statements only as of and for the year ended December 31, 2005 and as of and for the period from inception to December 31, 2004. We have acquired our fleet of jackup rigs and liftboats in a number of separate asset acquisitions since our formation in July 2004. We have not completed or provided in this prospectus any stand-alone pre-acquisition financial statements for the assets we acquired in these transactions. As a result, and given our recent date of formation, we have not provided in this prospectus three years of audited financial statements that normally would be included in a prospectus forming part of an SEC registration statement. Accordingly, you have limited information upon which to make your decision to invest in our common stock.

**Risks Related to Our Principal Stockholder, the Securities Markets and Ownership of Our Common Stock**

***Following this offering, our largest stockholder will exert significant influence over us.***

Following this offering, LR Hercules Holdings, LP ( Lime Rock ) will hold 22.9% of the outstanding common stock of our company (or 20.7% if the underwriters exercise the over-allotment option in full). As a

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result of its ownership, Lime Rock will be able to exert significant influence over us. Investors in this offering, by themselves, will not be able to affect the outcome of any stockholder vote.

***Our interests may conflict with those of Lime Rock and its affiliates with respect to our past and ongoing business relationships, and because of their ownership, we may not be able to resolve these conflicts on terms commensurate with those possible in arms-length transactions.***

Our interests may conflict with those of Lime Rock and its affiliates in a number of areas relating to our past and ongoing relationships, including:

- the timing and manner of any sales or distributions by Lime Rock of all or any portion of its ownership interests in us;
- business opportunities that may be presented to Lime Rock and to our directors associated with Lime Rock;
- competition between Lime Rock and us within the same lines of business; and
- our dividend policy.

We may not be able to resolve any potential conflicts with Lime Rock and its affiliates, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

***We limit foreign ownership of our company, which could reduce the price of our common stock.***

Our certificate of incorporation limits the percentage of outstanding common stock and other classes of capital stock that can be owned by non-United States citizens within the meaning of statutes relating to the ownership of U.S.-flagged vessels. Applying the statutory requirements applicable today, our certificate of incorporation provides that no more than 20% of our outstanding common stock may be owned by non-United States citizens and establishes mechanisms to maintain compliance with these requirements. These restrictions may have an adverse impact on the liquidity or market value of our common stock because holders may be unable to transfer our common stock to non-United States citizens. Any attempted or purported transfer of our common stock in violation of these restrictions will be ineffective to transfer such common stock or any voting, dividend or other rights in respect of such common stock.

***Restrictions on the percentage ownership of our outstanding capital stock by non-U.S. citizens may subject the shares held by such non-U.S. citizens to restrictions, limitations and redemption.***

Our certificate of incorporation provides that any transfer, or attempted or purported transfer, of any shares of our capital stock that would result in the ownership or control of in excess of 20% of our outstanding capital stock by one or more persons who are not U.S. citizens for purposes of U.S. coastwise shipping will be void and ineffective as against us. In addition, if at any time persons other than U.S. citizens own shares of our capital stock or possess voting power over any shares of our capital stock in excess of 20%, we may withhold payment of dividends, suspend the voting rights attributable to such shares and redeem such shares.

***Substantial sales of our common stock by Lime Rock or us could cause our stock price to decline and issuances by us may dilute the ownership interest in our company of our existing stockholders.***

We are unable to predict whether significant amounts of our common stock will be sold by Lime Rock after the offering. Any sales of substantial amounts of our common stock in the public market by Lime Rock or us, or the perception that these sales might occur, could lower the market price of our common stock. Further, if we issue additional equity securities to raise additional capital, your ownership interest in our company may be diluted and the value of your investment may be reduced. Please read  Shares Eligible for Future Sale.

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***We have no plans to pay regular dividends on our common stock, so you may not receive funds without selling your common stock.***

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 senior secured credit agreement restricts our ability to pay dividends or other distributions on our equity securities. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell our common stock and may lose the entire amount of your investment.

***The price of our common stock may be volatile.***

The market price of our common stock could be subject to significant fluctuations after this offering and may decline below the offering price. You may not be able to resell your shares at or above the offering price. Among the factors that could affect the price of our common stock are:

- our operating and financial performance and prospects;
- quarterly variations in the rate of growth of our financial indicators, such as earnings per share, net income and revenues;
- changes in revenue or earnings estimates;
- publication of research reports by analysts;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- sales of our common stock by stockholders;
- actions by institutional investors or Lime Rock;
- fluctuations in oil and natural gas prices;
- general market conditions; and

U.S. and international economic, legal and regulatory factors unrelated to our performance.

The stock markets in general have experienced extreme volatility that has at times been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

***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. Please read Description of Capital Stock for a description of these provisions.

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**FORWARD-LOOKING INFORMATION**

Certain of the statements contained in this prospectus are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations, including statements about the following subjects:

- our strategy, including our plans, expectations and any effects of focusing on shallow-water drilling and liftboat services in the U.S. Gulf of Mexico and international locations, pursuing efficient, low-cost operations, pursuing strategic growth opportunities and maintaining a conservative capital structure and sufficient liquidity;
- our ability to enter into new contracts for our rigs and liftboats, including *Rig 16* and *Rig 31*, and future utilization rates for the units;
- the correlation between demand for our rigs and our liftboats and our earnings and customers expectations of energy prices;
- future capital expenditures and refurbishment costs;
- amounts expected to be paid by insurance proceeds for *Rig 21* and *Rig 25*;
- expected time to complete the refurbishment of *Rig 16*, *Rig 26* and *Rig 31*;
- sufficiency of funds for required capital expenditures, working capital and debt service;
- our ability to complete the Laborde acquisition;
- our plans regarding increased international operations;
- our expectations regarding the availability and costs of insurance coverage for our rigs and liftboats;
- expected useful lives of our rigs and liftboats;
- liabilities under laws and regulations protecting the environment;
- expected outcomes of litigation, claims and disputes and their expected effects on our financial condition and results of operations; and

expectations regarding improvements in offshore drilling activity, continuation of current market conditions, demand for our rigs and liftboats, inspection and repair work for our liftboats, operating revenues, operating and maintenance expense, insurance expense and deductibles, interest expense, debt levels and other matters with regard to outlook.

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 above and the following:

oil and natural gas prices and industry expectations about future prices;

demand for offshore jackup rigs and liftboats;

our ability to enter into and the terms of future contracts;

the impact of governmental laws and regulations;

the adequacy of sources of liquidity;

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;

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- the availability of skilled personnel;
- labor relations and work stoppages;
- operating hazards such as severe weather and seas, fires, cratering, blowouts, war, terrorism and cancellation or unavailability of insurance coverage;
- the effect of litigation 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.

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## USE OF PROCEEDS

We estimate that our net proceeds from the sale of 1,600,000 shares of our common stock in this offering will be approximately $56.0 million (assuming a price to public of $37.12 per share), after deducting underwriting discounts and commissions and our estimated offering expenses. We will not receive any of the proceeds from any sale of shares of our common stock by the selling stockholders.

Under our senior secured term loan, we are required to use 25% of the net proceeds to us from this offering, totaling $14.0 million, to prepay outstanding amounts under the term loan, provided that the holders of the term loan may reject such prepayment. If we use all $14.0 million to prepay amounts under the term loan, we would also pay accrued and unpaid interest to the repayment date of approximately $48,000. We intend to use the net proceeds not used in the mandatory prepayment for other corporate purposes, which may include the refurbishment of *Rig 26* and *Rig 31* and the acquisition and refurbishment of additional rigs and liftboats, including the Laborde liftboats.

In June 2005, we entered into a senior secured credit agreement with a syndicate of financial institutions. The agreement provided for a $140.0 million term loan and a $25.0 million revolving credit facility. We used the proceeds from the term loan to repay all outstanding amounts under two credit facilities, including accrued interest, fees and applicable prepayment premiums, to fund the purchase price of the jackup rig *Rig 16* and for general corporate purposes. We terminated both of those credit facilities in connection with the repayment. We repaid $45.0 million of principal amount of the term loan with a portion of the net proceeds to us from our initial public offering in November 2005.

Amounts outstanding under our senior secured term loan currently bear interest at a rate equal to, at our option, either (1) the highest of (a) the lead lender s base rate, (b) the three-month certificate of deposit rate plus 0.5% and (c) the Federal funds effective rate plus 0.5%, in each case plus 2.25%, or (2) LIBOR plus 3.25%. As of April 3, 2006, $94.0 million of the principal amount of the term loan was outstanding, and the interest rate was 8.24%. In accordance with the credit agreement, in July 2005, we entered into hedge transactions with the purpose and effect of fixing the interest rate on $70.0 million of the outstanding principal amount of the term loan at 7.54% for three years. In addition, we entered into hedge transactions with the purpose and effect of capping the interest rate on an additional $20.0 million of such principal amount at 8.25% for three years. Principal payments of $350,000 are due quarterly, and the outstanding principal balance of the term loan is payable in full in June 2010. For additional information about the term loan, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this prospectus.

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## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock is traded on the NASDAQ National Market under the symbol HERO. As of March 17, 2006, there were 28 stockholders of record. The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock:

| | Price | |
|---|---|---|
| | **High** | **Low** |
| **2005** | | |
| Fourth Quarter(1) | $ 29.26 | $ 20.60 |
| **2006** | | |
| First Quarter | $ 36.70 | $ 27.68 |
| Second Quarter(2) | $ 38.83 | $ 34.02 |

(1) Reflects trading activity from October 27, 2005 through December 31, 2005.
(2) Reflects trading activity through April 10, 2006.

On April 10, 2006, the last reported sale price of our common stock on the NASDAQ National Market was $37.12 per share.

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 senior secured credit agreement restricts our ability to pay dividends or other distributions on our equity securities.

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## CAPITALIZATION

We have provided in the table below our consolidated cash and cash equivalents and capitalization as of December 31, 2005: (1) on an actual basis and (2) on an as adjusted basis after giving effect to this offering and the use of the net proceeds to us to prepay $14.0 million of amounts outstanding under our senior secured term loan, together with accrued and unpaid interest to the repayment date of approximately $48,000, as described under Use of Proceeds as if these transactions had occurred as of December 31, 2005. This table should be read in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

| | December 31, 2005 | |
|---|---|---|
| | Actual | As Adjusted |
| | (in thousands, except par values) | |
| Cash and cash equivalents(1) | $ 47,575 | $ 89,504 |
| Long-term debt, including current portion: | | |
| Senior secured credit facility | $ 94,650 | $ 80,658 |
| Total long-term debt, including current portion | 94,650 | 80,658 |
| Stockholders equity: | | |
| Preferred stock, par value $0.01 per share; 50,000 shares authorized; no shares issued and outstanding | | |
| Common stock, par value $0.01 per share; 200,000 shares authorized; 30,243 shares issued and outstanding on an actual basis; 31,843 shares issued and outstanding as adjusted | 302 | 318 |
| Additional paid-in capital | 184,698 | 240,651 |
| Restricted stock (unearned compensation) | (1,322) | (1,322) |
| Accumulated other comprehensive income | 476 | 476 |
| Retained earnings | 31,789 | 31,541(2) |
| Total stockholders equity | 215,943 | 271,664 |
| Total capitalization | $ 310,593 | $ 352,332 |

(1) Does not give effect to our payment in February 2006 of $20.1 million in cash to fund the purchase price of *Rig 26*.

(2) Includes a charge of $0.4 million, consisting of the write-off of deferred financing costs related to the portion of our term loan that will be retired. The after-tax impact of the write-off on stockholders equity is $0.2 million.

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**SELECTED CONSOLIDATED FINANCIAL DATA**

We have derived the following consolidated financial information as of and for the period from inception to December 31, 2004 and as of and for the year ended December 31, 2005 from our audited consolidated financial statements included elsewhere in this prospectus.

We were formed in July 2004 and commenced operations in August 2004. From our formation to December 31, 2005, we completed several significant asset acquisitions that impact the comparability of our historical financial results. Our financial results reflect the impact of the assets only after the date of their acquisition. This prospectus does not include any financial information relating to the assets for periods prior to their acquisition date. As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisition History and Financial Statement Presentation, we have concluded that we are not required to include such pre-acquisition financial statements in this prospectus, and we believe that separate audited financial statements for the assets we acquired as of any date or for any period prior to our acquisition of those assets would not be meaningful to investors.

In addition, in connection with our initial public offering, we converted from a Delaware limited liability company to a Delaware corporation on November 1, 2005. Prior to the conversion, our owners elected to be taxed at the member unitholder level rather than at the company level. As a result, we did not recognize any tax provision on our income prior to the conversion. Upon completion of the conversion, we recorded a tax provision of $12.1 million related to the recognition of deferred taxes equal to the tax effect of the difference between the book and tax basis of our assets and liabilities as of the effective date of the conversion.

You should read the following information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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| | Year Ended December 31, 2005 | Period from Inception to December 31, 2004 |
|---|---|---|
| | (dollars in thousands, except per share data) | |
| **INCOME STATEMENT DATA:** | | |
| Revenues: | | |
| Drilling services | $ 103,422 | $ 24,006 |
| Marine services | 57,912 | 7,722 |
| Total revenues | 161,334 | 31,728 |
| Costs and Expenses: | | |
| Operating expenses for drilling services, excluding depreciation and amortization | 48,330 | 12,799 |
| Operating expenses for marine services, excluding depreciation and amortization | 29,484 | 4,198 |
| Depreciation and amortization | 13,790 | 2,016 |
| General and administrative, excluding depreciation and amortization | 13,871 | 2,808 |
| Total costs and expenses | 105,475 | 21,821 |
| Operating Income | 55,859 | 9,907 |
| Other Income (Expense): | | |
| Interest expense | (9,880) | (2,070) |
| Loss on early retirement of debt | (4,078) | |
| Other, net | 924 | 228 |
| Income Before Income Taxes | 42,825 | 8,065 |
| Income Tax Provision | | |
| Current income tax | (122) | |
| Deferred income tax | (15,247) | |
| Net Income | $ 27,456 | $ 8,065 |
| Net Income Per Share: | | |
| Basic | $ 1.10 | $ 0.55 |
| Diluted | $ 1.08 | $ 0.55 |
| Weighted Average Shares Outstanding: | | |
| Basic | 24,919,273 | 14,689,724 |
| Diluted | 25,431,822 | 14,689,724 |
| **BALANCE SHEET DATA (as of end of period):** | | |
| Cash and cash equivalents | $ 47,575 | $ 14,460 |
| Working capital | 70,083 | 30,283 |
| Total assets | 354,825 | 132,156 |
| Long-term debt, net of current portion | 93,250 | 53,000 |
| Total stockholders equity | 215,943 | 71,087 |
| **OTHER FINANCIAL DATA:** | | |
| Net cash provided by (used in): | | |
| Operating activities | $ 52,763 | $ (6,495) |

| | | |
|---|---|---|
| Investing activities | (172,953) | (96,274) |
| Financing activities | 153,305 | 117,229 |
| Capital expenditures | 168,038 | 94,443 |
| Deferred drydocking expenditures | 7,369 | 601 |

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## 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 Selected Consolidated Financial Data and our consolidated financial statements and notes thereto appearing elsewhere in this prospectus. This 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 and elsewhere in this prospectus and the documents we incorporate by reference. See Forward-Looking Information.*

### Overview

We provide shallow-water drilling and liftboat services to the oil and natural gas exploration and production industry primarily in the U.S. Gulf of Mexico. We provide these services to major integrated energy companies and independent oil and natural gas operators. We report our business activities in three business segments, Contract Drilling Services, Domestic Marine Services and International Marine Services. Prior to the fourth quarter of 2005, during which we acquired our international liftboats, we did not report an International Marine Services segment.

> ***Contract Drilling Services.*** We own a fleet of nine jackup rigs that can drill in maximum water depths ranging from 85 to 250 feet, and one jackup rig that was severely damaged in Hurricane Katrina and is no longer operable. Under most of our contract drilling service agreements, 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.

> ***Marine Services.*** We own a fleet of 46 liftboats in our Domestic and International Marine Services segments. Our Domestic Marine Services segment includes 42 liftboats operating in the U.S. Gulf of Mexico, and our International Marine Services segment includes four liftboats operating offshore Nigeria. Our liftboats are used to provide a wide range of offshore support services, including platform maintenance, platform construction, well intervention and decommissioning services, and can be moved from location to location within a short period of time. 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 four to eight employees, and we also receive a variable rate for reimbursement of other operating costs such as catering, fuel and rental equipment and other items.

Our revenues are affected primarily by dayrates, fleet utilization and the number and type of units in our fleet. 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. Our contracts in Nigeria are longer-term in nature, with the existing contracts being for a two-year term expiring in August 2006.

Our operating costs are primarily a function of fleet configuration and utilization levels. The most significant direct operating costs for our Contract Drilling Services segment are wages paid to crews, maintenance and repairs to the rigs, and marine 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 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 greatly reduced because the crew is smaller and maintenance activities are suspended. Rigs that have been cold-stacked typically require a lengthy reactivation project that can involve significant expenditures, particularly if the rig has been cold-stacked for a long period of time.

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The most significant costs for our Marine Services segments are the wages paid to crews and the amortization of regulatory drydocking costs. Unlike our Contract Drilling Services segment, 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, fuel, oil, rental equipment, crane overtime and other items. We record reimbursements from customers as revenues 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 time of drydock vary depending on the condition of the vessel. All costs associated with regulatory inspections, including related drydocking costs, are deferred and amortized over a period of 12 to 24 months.

**Industry Background and Trends**

Market conditions improved during 2005 compared to 2004. Our jackup rigs were contracted at dayrates ranging from approximately $31,000 to $70,000 in 2005, as compared to dayrates ranging from approximately $23,000 to $37,000 for the period from inception to December 31, 2004. Our liftboats were contracted at dayrates ranging from approximately $2,200 to $20,500 in 2005, as compared to dayrates ranging from approximately $3,300 to $13,700 for the period from inception to December 31, 2004. Dayrates for our jackup rigs and liftboats have continued to increase in the first quarter of 2006, with dayrates for our jackup rigs ranging from approximately $53,000 to $75,000 for the first two months of 2006, and dayrates for our liftboats ranging from approximately $4,800 to $28,000 in the same period. As discussed under Outlook below, we believe that current commodity prices support the recent increases in rig and liftboat dayrates. However, concerns over the level of oil supplies and natural gas in storage could lead to moderation or even a decline in dayrates.

The following table compares utilization rates for our jackup rigs, as operated by us or previous owners, with rates for similar units in the U.S. Gulf of Mexico for the years ended December 31, 2005, 2004, 2003, 2002 and 2001. The industry utilization rates for jackup rigs presented below are based on data provided by ODS-Petrodata and include the total number of jackup rigs of the specified type in the U.S. Gulf of Mexico. No industry data is available with respect to utilization rates of liftboats in the U.S. Gulf of Mexico or Nigeria; however, we believe that the utilization rates for our liftboats are comparable to those for similar vessels in our industry. The rates for our rigs and liftboats in the table below are presented on a pro forma basis as to the acquisitions of the rigs and liftboats currently in our fleet, excluding *Rig 16* and *Rig 31*, which were located in international markets for all periods presented, *Rig 26,* which was cold-stacked in the U.S. Gulf of Mexico for all periods presented, *Rig 25*, which was severely damaged during Hurricane Katrina and is no longer operable, and the *Whale Shark*, which was acquired in August 2005 and is newly constructed. The rates therefore include utilization data for such units when owned and operated by prior owners. As a result, the utilization rates for our rigs and liftboats presented below may not be indicative of the utilization rates that we would have achieved had we owned the assets for all of the periods presented or that we will achieve in the future. In addition, because the utilization rates for our rigs and liftboats presented below are on a pro forma basis, those rates differ from the historical utilization rates for our rigs and liftboats presented elsewhere in this prospectus. Utilization shown in the table below equals the total number of operating days for all rigs or liftboats of the specified type in the period as a percentage of the total number of calendar days in the period.

**PRO FORMA UTILIZATION RATES**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2004** | **2005** |
| **Jackup Rigs:** | | | | | |
| U.S. Gulf of Mexico | | | | | |
| 250-foot mat slot jackup rigs | 63.1% | 12.9% | 34.6% | 48.5% | 66.4% |

| | | | | | |
|---|---|---|---|---|---|
| 200-foot mat cantilever jackup rigs | 85.2 | 61.2 | 84.9 | 98.2 | 98.2 |
| Hercules rigs (1) | 81.9 | 78.4 | 88.6 | 87.4 | 97.5 |
| **Liftboats:** | | | | | |
| Hercules liftboats (2) | 73.2% | 76.4% | 60.7% | 64.1% | 79.7% |

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(1) Excludes *Rig 16* and *Rig 31*, which were located in international markets for all periods presented, *Rig 16*, which was cold-stacked in the U.S. Gulf of Mexico for all periods presented, *Rig 25*, which was severely damaged during Hurricane Katrina and is no longer operable. *Rig 16*, *Rig 26* and *Rig 31* were not marketed and were stacked for all periods presented. Utilization rates for *Rig 25* were 83.0%, 98.1%, 100.0%, 68.0% and 100.0% for the years ended December 31, 2001, 2002, 2003 and 2004 and the period in 2005 prior to Hurricane Katrina, respectively.

(2) Excludes the *Whale Shark*, which was acquired in August 2005 and is newly constructed. Liftboats, unlike jackup rigs, are required to undergo annual inspections as well as more thorough inspections requiring drydocking two times every five years. As a result, we believe that utilization rates of approximately 90% represent effectively full utilization of our liftboat fleet.

During February 2006, utilization of our drilling rigs and liftboats was 84.9% and 86.0%, respectively.

**Recent Developments**

***Initial Public Offering***

We completed our initial public offering of 10,580,000 shares of common stock at $20.00 per share on November 1, 2005. We offered 6,250,000 shares of common stock, while the remaining 4,330,000 shares were offered by selling stockholders. We received approximately $115.1 million of proceeds from the offering, net of underwriting discounts and commissions and estimated expenses. We used $44.0 million of the proceeds to complete the acquisition of a fleet of seven liftboats from Danos & Curole Marine Contractors LLC, discussed below. In addition, we repaid $45.0 million of the senior secured term loan plus accrued interest of $0.3 million, discussed below. We used the remaining proceeds for the refurbishment of and upgrades to *Rig 16* and *Rig 31* and the acquisition of *Rig 26*.

On November 1, 2005, in connection with our initial public offering, we converted from a limited liability company to a corporation (the Conversion ). Upon the Conversion, each outstanding membership unit of the limited liability company was converted into 350 shares of common stock of the corporation. Prior to the Conversion, we elected to be taxed as a partnership. As such, the members of our company were taxed on their proportionate share of net income prior to the Conversion and no provision or liability for income taxes was included in our consolidated financial statements. When we became a taxable entity in the Conversion, a provision of approximately $12.1 million was made reflecting the tax effect of the difference between the book and tax basis of our assets and liabilities as of November 1, 2005, the effective date of the Conversion.

***Amendment to Credit Agreement***

In December 2005, we formed Hercules International Holdings, Ltd. ( Holdings ), a Cayman Islands subsidiary, and three additional Cayman Islands subsidiaries to support our international operations. We transferred ownership of *Rig 16* and *Rig 31* to Holdings in December 2005 and acquired *Rig 26* with Holdings in February 2006.

In January 2006, we amended our credit agreement to provide for, among other things, the release of the guaranty, security agreement and vessel mortgages recently entered into by two of our Cayman subsidiaries in connection with the transfer of *Rig 16* and *Rig 31*. In addition, we are permitted to advance up to $20.0 million to these two Cayman subsidiaries and to invest an additional $25.0 million in our foreign subsidiaries.

We also amended the credit agreement to extend the termination date of the 1% prepayment premium (that is applicable to certain prepayments of the term loan) from June 29, 2006 to December 31, 2006.

***Distribution to Former Members***

In February 2006, in accordance with the terms of the limited liability company operating agreement governing our company prior to the Conversion, we made a distribution of $3.7 million to the former members of our company for taxes in respect of the ten-month period ended upon the Conversion. The former members did not receive any other distributions prior to the Conversion, and other than this required distribution relating to taxes, the earnings generated by our company were retained by us as part of our stockholders equity balance upon the Conversion. We have no further obligation under the operating agreement to make any such distributions.

***Acquisition of Rig 26***

In February 2006, we acquired the jackup rig *Rig 26* for a purchase price of $20.1 million. This rig is capable of drilling in water depths of up to 150 feet. We are currently refurbishing the rig in a shipyard in Louisiana and expect to spend approximately $20.0 million on that refurbishment. We expect the rig to be available in the first quarter of 2007. We intend to seek work for the rig under a longer-term contract in a suitable international location.

***Liftboat Acquisition from Laborde.***

On April 3, 2006, we agreed to acquire five liftboats from Laborde Marine Lifts, Inc. ( Laborde ). In addition, we have agreed to assume the construction of an additional liftboat pursuant to a construction agreement to be assigned to us by Laborde at the closing. The total purchase price to be paid in connection with the transaction is $52.0 million. The purchase price will be reduced by the total amount remaining due under the construction agreement as of the closing date. We expect to close the transaction in the second quarter of 2006.

The liftboats, including the liftboat under construction, have leg lengths ranging from 105 to 200 feet and are located in the U.S. Gulf of Mexico. We intend to integrate the liftboats into our existing liftboat operations and seek work for them in the U.S. Gulf of Mexico or suitable international locations.

We intend to apply the $48.8 million of expected insurance proceeds related to *Rig 25* to the purchase price in the Laborde transaction. The balance would be paid from cash on hand, which may include net proceeds to us from this offering. The acquisition is subject to various closing conditions that may not be satisfied, and we may not complete the acquisition in the second quarter or at all.

***Rig 16 and Rig 31***

*Rig 16* is undergoing a major refurbishment and upgrade in a shipyard in the United Arab Emirates. On February 23, 2006, we entered into a letter of intent to contract *Rig 16* for work offshore Qatar. The letter of intent is conditioned upon, among other things, the completion of a definitive drilling contract. Under the letter of intent, the dayrate would escalate from a rate of $49,500, which would apply from the date of the customer s acceptance of the rig to May 31, 2006. From June 1, 2006 until the end of the contract term, the dayrate would be $69,500. We would also receive a stand-by rate of $30,000 per day, commencing on the date of the letter of intent and continuing until the earlier of the acceptance of the rig or May 1, 2006. The term of the contract would be two years commencing on the date the rig is under tow from the shipyard and is accepted by the customer. The customer may terminate the contract, and not pay the stand-by rate, if the rig is not under tow from the shipyard and accepted by June 1, 2006.

*Rig 31* is undergoing a major refurbishment and upgrade in a shipyard in Malaysia. On March 31, 2006, we entered into a letter of award to contract *Rig 31* for work offshore India. The letter of award is conditioned upon, among other things, the completion of a definitive drilling contract. The drilling contract, if completed, would cover the drilling of seven wells with five one-well options, and would commence in September 2006. The dayrate under the contract would be $110,000 for the first well and $140,000 for each additional well.

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***Recent Hurricanes***

Two of our jackup rigs, *Rig 21* and *Rig 25*, sustained damage during Hurricane Katrina. *Rig 21* sustained substantial damage to its mat and was moved to a shipyard in Mississippi to repair the damage. We expect the rig will be available in the second quarter of 2006. *Rig 25* was severely damaged in connection with Hurricane Katrina and is no longer operable. We expect to receive approximately $48.8 million under our insurance policies related to the rig, and we are attempting to salvage some of its equipment. None of our rigs or liftboats sustained any material damage during Hurricane Rita.

**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 prospectus. 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 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. Our significant accounting policies are summarized in Note 1 to our consolidated financial statements. We believe that our more critical accounting policies include those related to property and equipment, revenue recognition, allowance for doubtful accounts, deferred charges and stock-based compensation. Inherent in such policies are certain key assumptions and estimates.

***Property and Equipment***

Property and equipment represents 69.7% of our total assets as of December 31, 2005. Property and equipment is stated at cost, less accumulated depreciation. Expenditures that substantially increase the useful lives of our assets are capitalized and depreciated, while routine expenditures for maintenance items are expensed as incurred, except for expenditures for drydocking our liftboats. Drydock costs are capitalized at cost as other non-current assets on the consolidated balance sheet and amortized on the straight-line method over a period of 12 to 24 months (see Deferred Charges below). Depreciation is computed using the straight-line method over the useful life of the asset, which is typically 15 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 any asset may not be recoverable. For property and equipment, the determination of recoverability is made based on the estimated undiscounted future net cash flows of the assets being reviewed. Any actual impairment charge would be recorded using the estimated discounted value of future cash flows. Our estimates, assumptions and judgments used in the application of our property and equipment accounting polici