HERCULES OFFSHORE, INC.
Form 10-K
February 27, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2007

Commission file number: 0-51582

Hercules Offshore, Inc.
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.01 par value per share	NASDAQ Global Select Market
Rights to Purchase Preferred Stock	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The aggregate market value of the registrant s common stock held by non-affiliates as of June 30, 2007, based on the closing price on the Nasdaq Global Select Market on such date, was approximately $936.6 million. (As of such date, the registrant s directors and executive officers and LR Hercules Holdings, LP and its affiliates were considered affiliates of the registrant for this purpose.)

As of February 20, 2008, there were 88,860,523 shares of the registrant s common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the Annual Meeting of Stockholders to be held on April 23, 2008 are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

In this Annual Report on Form 10-K, we refer to Hercules Offshore, Inc. and its subsidiaries as we, the Company or Hercules Offshore, unless the context clearly indicates otherwise. Hercules Offshore, Inc. is a Delaware corporation formed in July 2004, with its principal executive offices located at 9 Greenway Plaza, Suite 2200, Houston, Texas 77046. Hercules Offshore s telephone number at such address is (713) 350-5100 and our Internet address is www.herculesoffshore.com.

Overview

We provide shallow-water drilling and marine services to the oil and natural gas exploration and production industry in the U.S. Gulf of Mexico and internationally. We provide these services to major integrated energy companies, independent oil and natural gas operators and national oil companies.

In July 2007, we furthered our strategic growth initiative by completing the acquisition of TODCO for total consideration of approximately $2,397.8 million, consisting of $925.8 million in cash and 56.6 million shares of common stock. TODCO, a provider of contract drilling and marine services, owned and operated 24 jackup rigs, 27 barge rigs, three submersible rigs, nine land rigs, one platform rig and a fleet of marine support vessels. The TODCO acquisition positioned us as a leading shallow-water drilling provider as well as expanded our international presence and diversified our fleet. In December 2007, we sold the nine land rigs for proceeds of $107.0 million.

We historically reported our business activities in four business segments, Domestic Contract Drilling Services, International Contract Drilling Services, Domestic Marine Services and International Marine Services. In connection with the acquisition of TODCO, we conducted a review of our segments. Our historical operating divisions have been combined with the businesses of TODCO and now operate as six divisions: (1) Domestic Offshore, (2) International Offshore, (3) Inland, (4) Domestic Liftboats, (5) International Liftboats and (6) Other. Domestic Offshore includes our legacy Domestic Contract Drilling Services business and TODCO s domestic offshore rigs operating in the U.S. Gulf of Mexico, while International Offshore includes our legacy International Contract Drilling Services and TODCO s offshore rigs operating internationally. Inland includes the former TODCO U.S. inland barge business. Domestic Liftboats includes our legacy Domestic Marine Services business, while International Liftboats includes our legacy International Marine Services business. Our Other segment includes Delta Towing and, prior to the December 2007 divestiture, the activities of our land rigs. The following describes our operations for each reporting segment:

Domestic Offshore operates 24 jackup rigs and three submersible rigs in the U.S. Gulf of Mexico that can drill in maximum water depths ranging from 85 to 250 feet.

International Offshore operates nine jackup rigs and one platform rig outside of the U.S. Gulf of Mexico. We have one jackup rig working offshore in each of the following international locations: Qatar, India, Angola, Cameroon and Trinidad. This segment operates two jackup rigs and one platform rig in Mexico. In addition, this segment has one jackup rig currently undergoing reactivation in Southeast Asia and one jackup rig currently undergoing contract preparation work and customer acceptance in India.

Inland operates a fleet of 12 conventional and 15 posted barge rigs that operate inland in marshes, rivers, lakes and shallow bay or coastal waterways along the U.S. Gulf Coast.

Domestic Liftboats operates 47 liftboats in the U.S. Gulf of Mexico.

International Liftboats operates 18 liftboats offshore West Africa, including five liftboats owned by a third party and one undergoing refurbishment.

Other our Delta Towing business operates a fleet of 33 inland tugs, 17 offshore tugs, 34 crew boats, 45 deck barges, 17 shale barges and four spud barges along and in the U.S. Gulf of Mexico. Our land rig operations, which were sold in December 2007, included one land rig in Trinidad, two land rigs in the United States and six land rigs in Venezuela.

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Our Fleet

Jackup Drilling Rigs

Jackup rigs are mobile, self-elevating drilling platforms equipped with legs that can be lowered to the ocean floor until a foundation is established to support the drilling platform. Once a foundation is established, the drilling platform is jacked further up the legs so that the platform is above the highest expected waves. The rig hull includes the drilling rig, jackup system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, helicopter landing deck and other related equipment.

Jackup rig legs may operate independently or have a lower hull referred to as a mat attached to the lower portion of the legs in order to provide a more stable foundation in soft bottom areas, similar to those encountered in certain of the shallow-water areas of the U.S. Gulf of Mexico. Mat rigs generally are able to more quickly position themselves on the worksite and more easily move on and off location than independent leg rigs. Twenty-six of our jackup rigs are mat-supported and seven are independent leg rigs.

Our rigs are used primarily for exploration and development drilling in shallow waters. Twenty-two of our rigs have a cantilever design that permits the drilling platform to be extended out from the hull to perform drilling or workover operations over some types of preexisting platforms or structures. Eleven rigs have a slot-type design, which requires drilling operations to take place through a slot in the hull. Slot-type rigs are usually used for exploratory drilling rather than development drilling, in that their configuration makes them difficult to position over existing platforms or structures. Historically, jackup rigs with a cantilever design have maintained higher levels of utilization than rigs with a slot-type design.

As of February 20, 2008, 17 of our jackup rigs were operating under contracts ranging in duration from well-to-well to three years, at an average contract dayrate of approximately $78,816. In the following table, ILS means an independent leg slot-type jackup rig, MC means a mat-supported cantilevered jackup rig, ILC means an independent leg cantilevered jackup rig and MS means a mat-supported slot-type jackup rig.

The following table contains information regarding our jackup rig fleet as of February 20, 2008.

Rig Name	Type	Year Built	Maximum/Minimum Water Depth Rating (Feet)	Rated Drilling Depth(a) (Feet)	Location	Status(b)
Hercules 85	ILS	1982	85/9	20,000	U.S. GOM	Stacked Ready
Hercules 101	MC	1980	100/20	20,000	U.S. GOM	Stacked Ready
Hercules 110	MC	1981	100/20	20,000	Trinidad	Contracted
Hercules 120	MC	1958	120/22	18,000	U.S. GOM	Contracted
Hercules 150	ILC	1979	150/10	20,000	U.S. GOM	Stacked Ready
Hercules 152	MC	1980	150/22	20,000	U.S. GOM	Contracted
Hercules 153	MC	1980	150/22	25,000	U.S. GOM	Warm Stacked
Hercules 155	ILC	1980	150/15	20,000	U.S. GOM	Cold Stacked
Hercules 156	ILC	1983	150/14	20,000	Cameroon	Contracted
Hercules 170	ILC	1981	170/16	16,000	Qatar	Contracted
Hercules 173	MC	1971	173/22	15,000	U.S. GOM	Contracted
Hercules 185	ILC	1982	120/20	20,000	Angola	Contracted

Hercules 191	MS	1978	160/20	20,000	U.S. GOM	Cold Stacked
Hercules 200	MC	1979	200/23	20,000	U.S. GOM	Contracted
Hercules 201	MC	1981	200/23	20,000	U.S. GOM	Contracted
Hercules 202	MC	1981	200/23	20,000	U.S. GOM	Stacked Ready
Hercules 203	MC	1982	200/23	20,000	U.S. GOM	Shipyard
Hercules 204	MC	1981	200/23	20,000	U.S. GOM	Contracted
Hercules 205	MC	1979	200/23	20,000	Mexico	Contracted
Hercules 206	MC	1980	200/23	20,000	Mexico	Contracted
Hercules 207	MC	1981	200/23	20,000	U.S. GOM	Contracted
Hercules 208(c)	MC	1980	200/22	20,000	Malaysia	Shipyard/Contracted
Hercules 211	MC	1980	200/23	18,000(d)	U.S. GOM	Contracted

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Rig Name	Type	Year Built	Maximum/Minimum Water Depth Rating (Feet)	Rated Drilling Depth(a) (Feet)	Location	Status(b)
Hercules 250	MS	1974	250/24	20,000	U.S. GOM	Warm Stacked
Hercules 251	MS	1978	250/24	20,000	U.S. GOM	Stacked Ready
Hercules 252	MS	1978	250/24	20,000	U.S. GOM	Contracted
Hercules 253	MS	1982	250/24	20,000	U.S. GOM	Contracted
Hercules 254	MS	1977	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 255	MS	1977	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 256	MS	1977	250/24	20,000	U.S. GOM	Cold Stacked
Hercules 257	MS	1979	250/24	20,000	U.S. GOM	Stacked Ready
Hercules 258	MS	1979	250/24	20,000	India	Contracted
Hercules 260	ILC	1979	250/12	20,000	India	Shipyard/Contracted

(a) 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.

(b) Rigs designated as Contracted are under contract while rigs described as Stacked Ready are not under contract but generally are ready for service. Rigs described as Warm Stacked may have a reduced number of crew, but only require a full crew to be ready for service. Rigs described as Cold Stacked are not actively marketed, normally require the hiring of an entire crew and require a maintenance review and refurbishment before they can function as a drilling rig. Rigs described as Shipyard are undergoing maintenance, repairs, or upgrades and may or may not be actively marketed depending on the length of stay in the shipyard.

(c) This rig is currently unable to operate in the U.S. Gulf of Mexico due to regulatory restrictions.

(d) Rated workover depth. *Hercules 211* is currently configured for workover activity, which includes maintenance and repair or modification of wells that have already been drilled and completed to enhance or resume the well s production.

Other Drilling Rigs

A submersible rig is a mobile drilling platform that is towed to the well site where it is submerged by flooding its lower hull tanks until it rests on the sea floor, with the upper hull above the water surface. After completion of the drilling operation, the rig is refloated by pumping the water out of the lower hull, so that it can be towed to another location. Submersible rigs typically operate in water depths of 14 to 85 feet. Our three submersible rigs are suitable for deep gas drilling.

A platform drilling rig is placed on a production platform and is similar to a modular land rig. The production platform s crane is capable of lifting the modularized rig crane that subsequently sets the rig modules. The assembled rig has all the drilling, housing and support facilities necessary for drilling multiple production wells. Most platform drilling rig contracts are for multiple wells and extended periods of time on the same platform. Once work has been completed on a particular platform, the rig can be redeployed to another platform for further work. We have one platform drilling rig. In the following table, Sub means a submersible rig and Plat means a platform drilling rig. The following table contains information regarding our other drilling rig fleet as of February 20, 2008.

Rig Name	**Type**	**Year Built**	**Maximum/Minimum Water Depth Rating (Feet)**	**Rated Drilling Depth(a) (Feet)**	**Location**	**Status(b)**
Hercules 75	Sub	1983	85/14	25,000	U.S. GOM	Warm Stacked
Hercules 77	Sub	1982	85/14	30,000	U.S. GOM	Warm Stacked
Hercules 78	Sub	1985	85/14	30,000	U.S. GOM	Warm Stacked
Platform 3	Plat	1993	N/A	25,000	Mexico	Contracted

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(a) 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.

(b) Rigs designated as Contracted are under contract while rigs described as Warm Stacked may have a reduced number of crew, but only require a full crew to be ready for service.

Barge Drilling Rigs

Barge drilling rigs are mobile drilling platforms that are submersible and are built to work in seven to 20 feet of water. They are towed by tugboats to the drill site with the derrick lying down. The lower hull is then submerged by flooding compartments until it rests on the river or sea floor. The derrick is then raised and drilling operations are conducted with the barge resting on the bottom. Our barge drilling fleet consists of 27 conventional and posted barge rigs. A posted barge is identical to a conventional barge except that the hull and superstructure are separated by 10 to 14 foot columns, which increases the water depth capabilities of the rig. Most of our barge drilling rigs are suitable for deep gas drilling.

The following table contains information regarding our barge drilling rig fleet as of February 20, 2008.

Rig Name	Type	Year Built	Horsepower Rating	Rated Drilling Depth(a) (Feet)	Location	Status(b)
1	Conv.	1980	2,000	20,000	U.S. GOM	Stacked Ready
7	Posted	1978	2,000	25,000	U.S. GOM	Cold Stacked
9	Posted	1981	2,000	25,000	U.S. GOM	Contracted
10	Posted	1981	2,000	25,000	U.S. GOM	Cold Stacked
11	Conv.	1982	3,000	30,000	U.S. GOM	Contracted
15	Conv.	1981	2,000	25,000	U.S. GOM	Contracted
17	Posted	1981	3,000	30,000	U.S. GOM	Contracted
19	Conv.	1974	1,000	14,000	U.S. GOM	Stacked Ready
20(c)	Conv.	1968	1,000	14,000	U.S. GOM	Cold Stacked
21	Conv.	1979	1,600	15,000	U.S. GOM	Cold Stacked
23	Conv.	1995	1,000	14,000	U.S. GOM	Cold Stacked
27	Posted	1979	3,000	30,000	U.S. GOM	Contracted
28	Conv.	1980	3,000	30,000	U.S. GOM	Warm Stacked
29	Conv.	1981	3,000	30,000	U.S. GOM	Contracted
30	Conv.	1981	3,000	30,000	U.S. GOM	Cold Stacked
31	Conv.	1982	3,000	30,000	U.S. GOM	Cold Stacked
32	Conv.	1982	3,000	30,000	U.S. GOM	Cold Stacked
41	Posted	1981	3,000	30,000	U.S. GOM	Contracted
46	Posted	1979	3,000	30,000	U.S. GOM	Contracted
47	Posted	1982	3,000	30,000	U.S. GOM	Cold Stacked
48	Posted	1982	3,000	30,000	U.S. GOM	Shipyard
49	Posted	1980	3,000	30,000	U.S. GOM	Shipyard
52	Posted	1981	2,000	25,000	U.S. GOM	Contracted
55	Posted	1981	3,000	30,000	U.S. GOM	Stacked Ready

57	Posted	1975	2,000	25,000	U.S. GOM	Contracted
61	Posted	1978	3,000	30,000	U.S. GOM	Cold Stacked
64	Posted	1979	3,000	30,000	U.S. GOM	Contracted

(a) 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.

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(b) Rigs designated as Contracted are under contract while rigs described as Stacked Ready are not under contract but generally are ready for service. Rigs described as Warm Stacked may have a reduced number of crew, but only require a full crew to be ready for service. Rigs described as Cold Stacked are not actively marketed, normally require the hiring of an entire crew and require a maintenance review and refurbishment before they can function as a drilling rig. Rigs described as Shipyard are undergoing maintenance, repairs, or upgrades and may or may not be actively marketed depending on the length of stay in the shipyard.

(c) In 2003, this barge was severely damaged by fire. This rig is no longer operating and will require substantial refurbishment to return to service.

Liftboats

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:

- production platform construction, inspection, maintenance and removal;
- well intervention and workover;
- well plug and abandonment; and
- pipeline installation and maintenance.

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. Our liftboats are ideal working platforms to support platform and pipeline inspection and maintenance tasks because of their ability to maneuver efficiently and support multiple activities at different working heights. Diving operations may also be performed from our liftboats in connection with underwater inspections and repair. In addition, our liftboats provide an effective platform from which to perform well-servicing activities such as mechanical wireline, electrical wireline and coiled tubing operations. Technological advances, such as coiled tubing, allow more well-servicing procedures to be conducted from liftboats. Moreover, during both platform construction and removal, smaller platform components can be installed and removed more efficiently and at a lower cost using a liftboat crane and liftboat-based personnel than with a specialized construction barge or jackup rig.

The length of the legs is the principal measure of capability for a liftboat, as it determines the maximum water depth in which the liftboat can operate. The U.S. Coast Guard restricts the operation of liftboats to water depths less than 180 feet, so boats with longer leg lengths are useful primarily on taller platforms. Ten of our liftboats in the U.S. Gulf of Mexico have leg lengths of 190 feet or greater, which allows us to service approximately 83% of the approximately 4,000 existing production platforms in the U.S. Gulf of Mexico. Liftboats are typically moved to a port during severe weather to avoid the winds and waves they would be exposed to in open water.

As of February 20, 2008, we owned 47 liftboats operating in the U.S. Gulf of Mexico and 13 liftboats operating in West Africa. In addition, we operated five liftboats owned by a third party in West Africa. The following table contains information regarding the liftboats we operate as of February 20, 2008.

Liftboat Name(1)	Year Built	Leg Length (Feet)	Deck Area (Square feet)	Maximum Deck Load (Pounds)	Location	Gross Tonnage
Whale Shark	2005	260	8,170	729,000	U.S. GOM	99
Tigershark	2001	230	5,300	1,000,000	U.S. GOM	469
Kingfish	1996	229	5,000	500,000	U.S. GOM	188
Man-O-War	1996	229	5,000	500,000	U.S. GOM	188
Wahoo	1981	215	4,525	500,000	U.S. GOM	491

Liftboat Name(1)	Year Built	Leg Length (Feet)	Deck Area (Square feet)	Maximum Deck Load (Pounds)	Location	Gross Tonnage
Blue Shark	1981	215	3,800	400,000	Nigeria	1,182
Amberjack	1981	205	3,800	500,000	U.S. GOM	417
Bullshark	1998	200	7,000	1,000,000	U.S. GOM	859
Creole Fish	2001	200	5,000	798,000	U.S. GOM	192
Cutlassfish	2006	200	5,000	798,000	U.S. GOM	183
Black Jack	1997	200	4,000	480,000	Nigeria	777
Swordfish	2000	190	4,000	700,000	U.S. GOM	189
Mako	2003	175	5,074	654,000	U.S. GOM	168
Leatherjack	1998	175	3,215	575,850	U.S. GOM	168
Oilfish	1996	170	3,200	590,000	Nigeria	495
Manta Ray	1981	150	2,400	200,000	U.S. GOM	194
Seabass	1983	150	2,600	200,000	U.S. GOM	186
F.J. Leleux(2)	1981	150	2,600	200,000	Nigeria	407
Black Marlin	1984	150	2,600	200,000	Nigeria	407
Hammerhead	1980	145	1,648	150,000	U.S. GOM	178
Pilotfish	1990	145	2,400	175,000	Nigeria	292
Rudderfish	1991	145	3,000	100,000	Nigeria	309
Blue Runner	1980	140	3,400	300,000	U.S. GOM	174
Starfish	1978	140	2,266	150,000	U.S. GOM	99
Rainbow Runner	1981	140	3,400	300,000	U.S. GOM	174
Pompano	1981	130	1,864	100,000	U.S. GOM	196
Sandshark	1982	130	1,940	150,000	U.S. GOM	196
Stingray	1979	130	2,266	150,000	U.S. GOM	99
Albacore	1985	130	1,764	150,000	U.S. GOM	171
Moray	1980	130	1,824	130,000	U.S. GOM	178
Skipfish	1985	130	1,116	110,000	U.S. GOM	91
Sailfish	1982	130	1,764	137,500	U.S. GOM	179
Mahi Mahi	1980	130	1,710	142,000	U.S. GOM	99
Triggerfish	2001	130	2,400	150,000	U.S. GOM	195
Scamp	1984	130	2,400	150,000	Nigeria	195
Rockfish	1981	125	1,728	150,000	U.S. GOM	192
Gar	1978	120	2,100	150,000	U.S. GOM	98
Grouper	1979	120	2,100	150,000	U.S. GOM	97
Sea Robin	1984	120	1,507	110,000	U.S. GOM	98
Tilapia	1976	120	1,280	110,000	U.S. GOM	97
Charlie Cobb(2)	1980	120	2,000	100,000	Nigeria	229
Durwood Speed(2)	1979	120	2,000	100,000	Nigeria	210
James Choat(2)	1980	120	2,000	100,000	Nigeria	210
Solefish	1978	120	2,000	100,000	Nigeria	229
Tigerfish	1980	120	2,000	100,000	Nigeria	210
Zoal Albrecht(2)	1982	120	2,000	100,000	Nigeria	213
Barracuda	1979	105	1,648	110,000	U.S. GOM	93
Carp	1978	105	1,648	110,000	U.S. GOM	98

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Liftboat Name(1)	Year Built	Leg Length (Feet)	Deck Area (Square feet)	Maximum Deck Load (Pounds)	Location	Gross Tonnage
Cobia	1978	105	1,648	110,000	U.S. GOM	94
Dolphin	1980	105	1,648	110,000	U.S. GOM	97
Herring	1979	105	1,648	110,000	U.S. GOM	97
Marlin	1979	105	1,648	110,000	U.S. GOM	97
Corina	1974	105	953	100,000	U.S. GOM	98
Pike	1980	105	1,360	130,000	U.S. GOM	92
Remora	1976	105	1,179	100,000	U.S. GOM	94
Wolffish	1977	105	1,044	100,000	U.S. GOM	99
Seabream	1980	105	1,140	100,000	U.S. GOM	92
Sea Trout	1978	105	1,500	100,000	U.S. GOM	97
Tarpon	1979	105	1,648	110,000	U.S. GOM	97
Palometa	1972	105	780	100,000	U.S. GOM	99
Jackfish	1978	105	1,648	110,000	U.S. GOM	99
Bonefish	1978	105	1,344	90,000	Nigeria	97
Croaker	1976	105	1,344	72,000	Nigeria	82
Gemfish	1978	105	2,000	100,000	Nigeria	223
Tapertail	1979	105	1,392	110,000	Nigeria	100

(1) The *Black Jack*, which we acquired in June 2007 and is undergoing refurbishment, is expected to be available by April 2008. The *Pike* is currently cold-stacked. All other liftboats are either available or operating.

(2) We operate these vessels; however, they are owned by a third party.

Competition

The shallow-water businesses in which we operate are highly competitive. Domestic drilling and liftboat contracts are traditionally short term in nature whereas international drilling and liftboat contracts are longer-term in nature. The contracts are typically awarded on a competitive bid basis. Pricing is often the primary factor in determining which qualified contractor is awarded a job, although technical capability of service and equipment, unit availability, unit location, safety record and crew quality may also be considered. Many of our competitors in the shallow-water business have greater financial and other resources than we have and may be better able to make technological improvements to existing equipment or replace equipment that becomes obsolete.

Customers

Our customers primarily include major integrated energy companies, independent oil and natural gas operators and national oil companies. Chevron Corporation accounted for 21% and 35% of our consolidated revenues for the years ended December 31, 2007 and 2006. Chevron and Bois d Arc Energy accounted for 31% and 12%, respectively, of our consolidated revenues for the year ended December 31, 2005. No other customer accounted for more than 10% of our consolidated revenues in any period.

Contracts

Our contracts to provide services are individually negotiated and vary in their terms and provisions. In general, dayrate drilling contracts provide for payment on a dayrate basis, with higher rates while the unit is operating and lower rates for periods of mobilization or when operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other factors.

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

A liftboat contract generally is based on a flat dayrate for the vessel and crew. Our liftboat dayrates are determined by prevailing market rates, vessel availability and historical rates paid by the specific customer. Under most of our liftboat contracts, we receive a variable rate for reimbursement of costs such as catering, fuel, oil, rental equipment, crane overtime and other items. Liftboat contracts in the U.S. Gulf of Mexico generally are for shorter terms than are drilling contracts. However, most of our liftboat contracts in West Africa have initial contract terms of two years plus a renewal option, with a few others for shorter terms similar to the U.S. Gulf of Mexico contracts.

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

Contract Backlog

The following table reflects the amount of our contract backlog by year as of February 20, 2008. Backlog is indicative of the full contractual dayrate. The amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors including shipyard and maintenance projects, other downtime and other factors that result in lower applicable dayrates than the full contractual operating dayrate, as well as the ability of our customers to terminate contracts under certain circumstances. Our contract backlog is calculated by multiplying the contracted operating dayrate by the number of days remaining in the firm contract period, excluding revenues for mobilization, demobilization and contract preparation.

		For the years ending December 31,				
	Total	2008	2009	2010	2011	Thereafter
			(in thousands)			
Domestic Offshore	$ 46,172	$ 46,172	$	$	$	$
International Offshore	570,395	213,759	181,071	134,975	40,590	
Inland	19,660	19,660				
Total	$ 636,227	$ 279,591	$ 181,071	$ 134,975	$ 40,590	$

Employees

As of December 31, 2007, we had approximately 3,300 employees. We require skilled personnel to operate and provide technical services and support for our rigs, barges and liftboats. As a result, we conduct extensive personnel recruiting, training and safety programs. As of December 31, 2007, certain of our employees in West Africa and Venezuela were working under collective bargaining agreements. Additionally, efforts have been made from time to time to unionize portions of the offshore workforce in the U.S. Gulf of Mexico. We believe that our employee relations are good.

Insurance

We maintain insurance coverage that includes coverage for physical damage, third party liability, workers compensation and employers liability, general liability, vessel pollution and other coverages.

In July 2007, we completed the renewal of all of our key insurance policies. Our primary marine package provides for hull and machinery coverage for our rigs and liftboats up to a scheduled value for each asset. The maximum coverage for these assets is $2.6 billion; however, coverage for U.S. Gulf of Mexico named windstorm damage is subject to an annual aggregate limit on liability of $150.0 million. The policies are subject to deductibles, self-insured retentions and other conditions. Deductibles for events that are not U.S. Gulf of Mexico named windstorm events are 10% of insured values per occurrence for drilling rigs, and range from $0.3 million to $1.0 million per occurrence for liftboats, depending on the insured value of the particular vessel. The deductibles for drilling rigs and liftboats in a U.S. Gulf of Mexico named windstorm event are the greater of $10.0 million or the applicable deductible for each U.S. Gulf of Mexico named windstorm. We are self-insured for 10% above the deductibles for removal of wreck, sue and labor, collision, protection and indemnity general liability and hull and physical damage policies. The protection and indemnity coverage under the primary marine package has a $5.0 million limit per occurrence with excess liability coverage up to $200.0 million. Vessel pollution is covered under a Water Quality Insurance Syndicate policy. In addition to the marine package, we have separate policies providing coverage for onshore general liability, employer s liability, auto liability and non-owned aircraft liability, with customary deductibles and coverage. We intend to renew certain of our insurance policies in the first half of 2008 and we do not expect significant increases to insurance premiums and fees for coverage of our operations, assets and personnel base.

Regulation

Our operations are affected in varying degrees by governmental laws and regulations. Our industry is dependent on demand for services from the oil and natural gas industry and, accordingly, is also affected by changing tax and other laws relating to the energy business generally. In the United States, we are also subject to the jurisdiction of the U.S. Coast Guard, the National Transportation Safety Board and the U.S. Customs and Border Protection Service, as well as private industry organizations such as the American Bureau of Shipping. The Coast Guard and the National Transportation Safety Board set safety standards and are authorized to investigate vessel accidents and recommend improved safety standards, and the U.S. Customs Service is authorized to inspect vessels at will. Coast Guard regulations also require annual inspections and periodic drydock inspections or special examinations of our vessels.

The shorelines and shallow water areas of the U.S. Gulf of Mexico are ecologically sensitive. Heightened environmental concerns in these areas have led to higher drilling costs and a more difficult and lengthy well permitting process and, in general, have adversely affected drilling decisions of oil and natural gas companies. In the United States, regulations applicable to our operations include regulations that require us to obtain and maintain specified permits or governmental approvals, control the discharge of materials into the environment, require 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 units in navigable U.S. waters and some offshore areas, we may be liable for damages and costs incurred in connection with oil spills or other unauthorized discharges of chemicals or wastes resulting from or related to those operations. Laws and regulations protecting the environment have become more stringent 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 which were in compliance with all applicable laws at the time they were performed. The application of these requirements or the adoption of new or more stringent requirements could have a material adverse effect on our financial condition and results of operations.

The U.S. Federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act, prohibits the discharge of pollutants into the navigable waters of the United States without a permit. The regulations implementing the Clean Water Act require permits to be obtained by an operator before specified exploration activities occur. Offshore facilities must also prepare plans addressing spill prevention control and countermeasures. Challenges arising largely out of foreign invasive species contained in discharges of ballast water resulted in a 2006 court order that vacated, as of September 30, 2008, an exemption from Clean Water Act discharge permit requirements for discharges incidental to normal operation of a vessel. This decision may result in imposition of permit or other requirements on the discharges of ballast water and other vessel wastewaters. In addition to this federal development, some states have begun regulating ballast water discharges. Violations of monitoring, reporting and permitting requirements can result in the imposition of civil and criminal penalties. Because we do not yet know what ballast water requirements will be imposed, we cannot estimate the potential financial impact at this time. However, we believe that any financial impacts resulting from the vacation of the permitting exemption and the implementation of federal and possible state regulation of ballast water discharges will not be material.

The U.S. Oil Pollution Act of 1990 (OPA) and related regulations impose a variety of requirements on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills. Few defenses exist to the liability imposed by OPA, and the liability could be substantial. Failure to comply with ongoing requirements or inadequate cooperation in the event of a spill could subject a responsible party to civil or criminal enforcement action. OPA also requires owners and operators of all vessels over 300 gross tons to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under OPA. The 2006 amendments to OPA require evidence of financial responsibility for a vessel over 300 gross tons in the amount the greater of $950 per gross ton or $800,000. Under OPA, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum liability under OPA. Vessel owners and operators may evidence their financial responsibility by showing proof of insurance, surety bond, self-insurance or guarantee. We have obtained the necessary OPA financial assurance certifications for each of our vessels subject to such requirements.

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

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

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

Some operations are conducted in the U.S. domestic trade, which is governed by the coastwise laws of the United States. The U.S. coastwise laws reserve marine transportation, including liftboat services, between points in the United States to vessels built in and documented under the laws of the United States and owned and manned by U.S. citizens. Generally, an entity is deemed a U.S. citizen for these purposes so long as:

- it is organized under the laws of the United States or a state;
- each of its president or other chief executive officer and the chairman of its board of directors is a U.S. citizen;
- no more than a minority of the number of its directors necessary to constitute a quorum for the transaction of business are non-U.S. citizens; and
- at least 75% of the interest and voting power in the corporation is held by U.S. citizens free of any trust, fiduciary arrangement or other agreement, arrangement or understanding whereby voting power may be exercised directly or indirectly by non-U.S. citizens.

Because we could lose our privilege of operating our liftboats in the U.S. coastwise trade if non-U.S. citizens were to own or control in excess of 25% of our outstanding interests, our certificate of incorporation restricts foreign ownership and control of our common stock to not more than 20% of our outstanding interests. Two of our liftboats rely on an exemption from coastwise laws in order to operate in the U.S. Gulf of Mexico. If these liftboats were to lose this exemption, we would be unable to use them in the U.S. Gulf of Mexico and would be forced to seek opportunities for them in international locations.

The United States is one of approximately 165 member countries to the International Maritime Organization (IMO), a specialized agency of the United Nations that is responsible for developing measures to improve the safety and security of international shipping and to prevent marine pollution from ships. Among the various international conventions negotiated by the IMO is the International Convention for the Prevention of Pollution from Ships (MARPOL). MARPOL imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions.

Annex VI to MARPOL sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances. Annex VI also imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with more stringent controls on sulfur emissions. For vessels over 400 gross tons, platforms and drilling rigs, Annex VI imposes various survey and certification requirements. For this purpose, gross tonnage is based on the International Tonnage Certificate for the vessel, which may vary from the standard U.S. gross tonnage for the vessel reflected in our liftboat table above. The United States has not yet ratified Annex VI. Any vessels we operate internationally are, however, subject to the requirements of Annex VI in those countries that have implemented its provisions. We believe the rigs we currently offer for international projects are generally exempt from the more costly compliance requirements of Annex VI and the liftboats we currently offer for international projects are generally exempt from or otherwise substantially comply with those requirements. Accordingly, we do not anticipate incurring significant costs to comply with Annex VI in the near term. If the United States does elect to ratify Annex VI in the future, we could be required to incur potentially significant costs to bring certain of our vessels into compliance with these requirements.

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

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

Available Information

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

Segment and Geographic Information

Information with respect to revenues, operating income and total assets attributable to our segments and revenues and long-lived assets by geographic areas of operations is presented in Note 15 of our Notes to Consolidated Financial Statements included in Item 8 of this annual report. Additional information about our segments, as well as information with respect to the impact of seasonal weather patterns on domestic operations, is presented in Management s Discussion and Financial Analysis of Financial Condition and Results of Operations in Item 7 of this annual report.

Item 1A. ***Risk Factors***

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

Our business depends on the level of activity in oil and natural gas exploration, development and production in the U.S. Gulf of Mexico and internationally, and in particular, the level of exploration, development and production expenditures of our customers. 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. However, higher prices do not necessarily translate into increased drilling activity since our clients expectations about future commodity prices typically drive demand for our services. Oil and natural gas prices are extremely volatile. On December 13, 2005 natural gas prices were $15.39 per MMBtu at the Henry Hub. They subsequently declined sharply, reaching a low of $3.63 per MMBtu at the Henry Hub on September 29, 2006. As of February 15, 2008, the closing price of natural gas at the Henry Hub was $8.73 per MMBtu. Oil prices since January 1, 2007, based on the spot price for West Texas intermediate crude, have ranged from $50.48 as of January 18, 2007 to $99.62 as of January 2, 2008, with a closing price of $95.50 as of February 15, 2008. 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;
- political, economic and weather conditions in the United States and elsewhere;

imports of liquefied natural gas;

- 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;
- domestic and international tax policies;
- the development and exploitation of alternative fuels;
- 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 significant 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, and even during periods of high commodity prices, companies exploring for and producing oil and natural gas may cancel or curtail their drilling programs, or reduce their levels of capital expenditures for exploration and production for a variety of reasons, including their lack of success in exploration efforts. 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.

A significant portion of our business is conducted 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, although rig and liftboat availability, location and technical capability and each contractor s safety performance record and reputation for quality also can be key factors in the determination. Dayrates also depend on the supply of rigs and vessels. Generally, excess capacity puts downward pressure on dayrates. Excess capacity can occur when newly constructed rigs and vessels enter service, when rigs and vessels are mobilized between geographic areas and when non-marketed rigs and vessels are 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. Some of our competitors also are incorporated in tax-haven countries outside the United States, which provides them with significant tax advantages that are not available to us as a U.S. company, which may materially impair our ability to compete with them for many projects that would be beneficial to our company. In addition, the competitive environment has intensified as recent mergers within the oil and natural gas industry have reduced the number of available customers and suppliers, resulting in increased price competition and fewer alternatives for sourcing of key supplies. Finally, competition among 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.

The terms of some of our dayrate drilling contracts may limit our ability to benefit from increasing dayrates in an improving market.

Although historically our offshore drilling contracts in the U.S. Gulf of Mexico generally have been on a short-term basis, from time to time, and particularly in international locations, we may enter into longer term contracts. The duration of offshore drilling contracts is generally determined by market demand and the strategies of the offshore drilling contractors and their customers. In periods of rising demand for offshore rigs, a drilling contractor generally would prefer to enter into well-to-well or other shorter term contracts that would allow the contractor to profit from increasing dayrates, while customers with reasonably definite drilling programs would typically prefer longer term contracts in order to maintain dayrates at a consistent level. Conversely, in periods of decreasing demand for offshore rigs, a drilling contractor generally would prefer longer term contracts to preserve dayrates and utilization, while customers generally would prefer well-to-well contracts or other shorter term contracts that would allow the customer to benefit from the decreasing dayrates. Our inability to fully benefit from increasing dayrates in an improving market, due to the long-term nature of some of our contracts, may adversely affect our profitability.

Our drilling and liftboat contracts may be terminated due to events beyond our control.

Our customers may terminate some of our drilling and liftboat contracts if the unit is destroyed or lost or if operations are suspended for a specified period of time as a result of a breakdown of our equipment, or due to events beyond the control of either party. In some cases, our drilling contracts and liftboat contracts may be terminable upon specified advance notice from the customer and after some termination payment (which would not fully compensate us for the loss of the contract). The likelihood that a customer may seek to terminate a contract is increased during periods of market weakness. Early termination of a contract may result in a rig or liftboat being idle for an extended period of time, which could adversely affect our financial position, results of operations and cash flows.

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 property and equipment involved, injury or death to rig or liftboat personnel, and environmental damage. We may also be subject to personal injury and other claims of rig or liftboat personnel as a result of our drilling and liftboat operations. Operations also may be suspended because of machinery breakdowns, abnormal operating conditions, failure of subcontractors to perform or supply goods or services and personnel shortages.

In addition, our drilling and liftboat operations are subject to perils 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 addition, damage to our rigs, liftboats, shorebases and corporate infrastructure caused by high winds, turbulent seas, or unstable sea bottom conditions could potentially cause us to curtail operations for significant periods of time until the damages can be repaired.

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 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, our insurance costs increased significantly, our deductibles increased and our coverage for named windstorm damage was restricted. Any additional severe storm activity in the energy producing areas of the U.S. Gulf of Mexico in the future could cause insurance underwriters to no longer insure U.S. Gulf of Mexico assets against weather-related damage. 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.

Our customers may be unable or unwilling to indemnify us.

Consistent with standard industry practice, our clients generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. These risks are those associated with the loss of control of a well, such as blowout or cratering, the cost to regain control or redrill the well and associated pollution. There can be no assurance, however, that these clients will necessarily be financially able to indemnify us against all these risks. Also, we may be effectively prevented from enforcing these indemnities because of the nature of our relationship with some of our larger clients. Additionally, from time to time we may not be able to obtain agreement from our customer for such damages and risks.

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

An element of our business strategy is to continue to expand into international oil and natural gas producing areas such as West Africa, the Middle East and the Asia-Pacific region, including India. As of February 20, 2008, we owned or operated 18 liftboats operating offshore West Africa, including Nigeria, nine jackup rigs operating offshore or located in the following locations: Mexico, Qatar, India, Angola, Malaysia and Trinidad, and one platform rig in Mexico. Our international operations are subject to a number of risks inherent in any business operating in foreign countries, including:

- political, social and economic instability, war and acts of terrorism;
- potential seizure, expropriation or nationalization of assets;
- damage to our equipment or violence directed at our employees, including kidnappings;
- piracy;
- increased operating costs;
- complications associated with repairing and replacing equipment in remote locations;
- repudiation, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage in certain areas;
- import-export quotas;
- confiscatory taxation;
- work stoppages, particularly in the Nigerian labor environment;
- unexpected changes in regulatory requirements;
- wage and price controls;
- imposition of trade barriers;
- imposition or changes in enforcement of local content laws;
- restrictions on currency or capital repatriations;
- currency fluctuations and devaluations; and
- other forms of government regulation and economic conditions that are beyond our control.

As a result of our international expansion, including our acquisition of jack-ups and a platform rig in the acquisition of TODCO, 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.

Many governments favor or effectively require that liftboat or drilling contracts be awarded to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may result in inefficiencies or put us at a disadvantage when bidding for contracts against local competitors.

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

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

A small number of customers account for a significant portion of our revenues, and the loss of any of these customers 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 21%, 35% and 31% of our consolidated revenues for the years ended December 31, 2007, 2006 and 2005. In addition, Chevron Corporation accounts for 85% of the revenues for our International Liftboats segment. 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. In addition, the loss of any of our other significant customers could adversely affect our financial condition and results of operations.

Reactivation 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 improve, inactive rigs and liftboats that are not currently being marketed could be reactivated to meet an increase in demand. 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 8, 2008, 85 jackup rigs had been ordered by industry participants, national oil companies and financial investors for delivery through 2011. Not all of the rigs currently under construction have been contracted for future work, which may intensify price competition as scheduled delivery dates occur. In addition, as of February 20, 2008, 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 also regularly make certain upgrades or modifications to our drilling rigs to meet customer or contract specific requirements. We are currently upgrading and refurbishing *Hercules 208* and *Black Jack* and are making or planning to make contract specific modifications to *Hercules 260* and *Hercules 258*.

Upgrade, refurbishment and repair projects are subject to the risks of delay or cost overruns inherent in any large construction project, including costs or delays resulting from the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts and materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- unforeseen design and engineering problems;
- unanticipated actual or purported change orders;
- work stoppages;
- latent damages or deterioration to hull, equipment and machinery in excess of engineering estimates and assumptions;
- failure or delay of third-party service providers and labor disputes;
- disputes with shipyards and suppliers;
- delays and unexpected costs of incorporating parts and materials needed for the completion of projects;
- financial or other difficulties at shipyards;
- adverse weather conditions; and
- inability to obtain required permits or approvals.

We may experience delays and costs overruns in the refurbishment of *Hercules 208* due to certain of the factors listed above. Delays could put at risk our planned arrangements to commence operations on schedule. We are exposed to penalties for failure to complete the rig and commence operations in a timely manner.

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. Failure to complete an upgrade, refurbishment or repair project on time may, in some circumstances, result in the delay, renegotiation or cancellation of a drilling or liftboat contract. Our rigs and liftboats undergoing upgrade, refurbishment or repair may not earn a dayrate during the period they are out of service.

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. In addition, the announced construction of new rigs includes approximately 85 higher specification jackup rigs. Particularly during market downturns when there is decreased rig demand, higher specification rigs may be more likely to obtain contracts than lower specification jackup rigs such as ours. In the past, lower specification rigs have been stacked earlier in the cycle of decreased rig demand than higher specification rigs and have been reactivated later in the cycle, which may adversely impact our business. In addition, higher specification rigs may be more adaptable to different operating conditions and therefore have greater flexibility to move to areas of demand in response to changes in market conditions. Because a majority of our rigs were designed specifically for drilling in the shallow-water 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.

The impact of purchase accounting associated with our acquisition of TODCO could adversely affect our results of operations and financial condition.

Purchase accounting required us to allocate the price paid in the acquisition of TODCO to the assets acquired on the basis of their fair values at the time of the closing of the acquisition. Those adjustments resulted in significant increases in the carrying values of acquired property, plant and equipment costs. The increased value of property, plant and equipment has increased our depreciation expense, which has reduced reported earnings but has had no effect on cash flows.

As a result of the acquisition, we have recorded significant goodwill on our balance sheet. We will assess the realizability of the goodwill we have on our books annually as well as whenever events or changes in circumstances indicate that the goodwill may be impaired. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business, which may affect one or more of our reported segments. Our ability to realize the value of the goodwill will depend on the future cash flows of our businesses. These cash flows in turn depend in part on how well we have integrated these businesses. If we are not able to realize the value of the goodwill, we may be required to incur material charges relating to the impairment of those assets. In addition, the goodwill will be tested annually to assess this amount for impairment under generally accepted accounting principles. If we conclude that the goodwill associated with the TODCO acquisition is impaired or, additionally, that the carrying value of assets acquired are impaired, the amount of the impairment would reduce the amount of earnings we would otherwise report but would have no effect on our cash flows.

Our business is expected to continue to be cyclical. The goodwill associated with the acquisition and the increased carrying values of TODCO s assets on our balance sheet could, therefore, increase the potential for impairment of the goodwill and the carrying values of the assets acquired.

TODCO s tax sharing agreement with Transocean may require continuing substantial payments.

We, as successor to TODCO, and TODCO s former parent Transocean Inc. are parties to a tax sharing agreement that was originally entered into in connection with TODCO s initial public offering in 2004. The tax sharing agreement was amended and restated in November 2006 in a negotiated settlement of disputes between Transocean and TODCO over the terms of the original tax sharing agreement. The tax sharing agreement required us to make an acceleration payment to Transocean upon completion of the TODCO acquisition as a result of the deemed utilization of TODCO s pre-IPO tax benefits. Subsequent to the completion of the TODCO acquisition, we paid $116 million to Transocean in satisfaction of those obligations. The basis of determination for the change in control payment is subject to a differing interpretation by Transocean.

Additionally, the tax sharing agreement continues to require that additional payments be made to Transocean based on a portion of the expected tax benefit from the exercise of certain compensatory stock options to acquire Transocean common stock attributable to TODCO employees and board members. The estimated amount of payments to Transocean related to compensatory options that remain outstanding at December 31, 2007, assuming a Transocean stock price of $143.15 per share at the time of exercise of the compensatory options (the actual price of Transocean s common stock at December 31, 2007), is approximately $25.4 million. There is no certainty that we will realize future economic benefits from TODCO s tax benefits equal to the amount of the payments required under the tax sharing agreement.

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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. 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. Any such transactions could involve the payment by us of a substantial amount of cash, the incurrence of a substantial amount of debt or the issuance of a substantial amount of equity. We cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of our common stock.

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

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

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 our areas of operation 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. The shortages of qualified personnel or the inability to obtain and retain qualified personnel also could negatively affect the quality and timeliness of our work. In addition, our ability to expand our operations depends in part upon our ability to increase the size of our skilled labor force. Moreover, our labor costs increased significantly in 2006 and 2007, and we expect this trend to continue, but at a slower pace in 2008.

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

Governmental laws and regulations 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 compliance with the U.S. Foreign Corrupt Practices Act, 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 governmental 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.

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

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

Our operating and maintenance costs with respect to our rigs do not necessarily fluctuate in proportion to changes in operating revenues.

We do not expect our operating and maintenance costs with respect to our rigs to necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in dayrate. But costs for operating a rig are generally fixed or only semi-variable regardless of the dayrate being earned. Additionally, if our rigs incur idle time between contracts, we typically do not de-man those rigs because we will use the crew to prepare the rig for its next contract. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare our rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. Moreover, as our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized.

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

We are from time to time involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury, environmental, asbestos and other toxic tort, employment, tax and securities litigation, and other litigation that arises in the ordinary course of our business. We cannot predict with certainty the outcome or effect of any claim or other litigation matter. Litigation may have an adverse effect on us because of potential negative outcomes, the costs associated with defending the lawsuits, the diversion of our management s resources and other factors.

Changes in effective tax rates or adverse outcomes resulting from examination of our tax returns could adversely affect our operating results and financial results.

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

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.

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, 2007, we have total outstanding debt of approximately $912 million. This debt represents approximately 31% of our total capitalization. We have up to $150 million of available capacity under our revolving credit facility of which $28.1 million has been committed related to issued standby letters of credit. We may continue to borrow to fund working capital or other needs, including to fund the purchase price of three rigs from Transocean Inc., in the near term up to the remaining $121.9 million. 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 to the extent we have not hedged such risk 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 from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments.

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 or guarantee additional indebtedness;

create or incur liens;

restrict dividend or other payments by our subsidiaries to us;

sell our assets or consolidate or merge with or into other companies; and

engage in transactions with affiliates.

These limitations are subject to a number of important qualifications and exceptions. Our credit agreement also requires us to maintain a minimum fixed charge coverage ratio and maximum leverage ratio. In addition, commencing with the year ending December 31, 2008, we are required to prepay our $900 million term loan with 50% of our excess cash flow until the outstanding principal balance of the term loan is less than $550.0 million. Our compliance with these provisions may materially adversely affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, finance our acquisitions, equipment purchases and development expenditures, or withstand a future downturn in our business.

If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness, there could be a default under the terms of these agreements, which could result in an acceleration of payment of funds that we have borrowed.

If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, there could be a default under the terms of these agreements. Our ability to comply with these restrictions and covenants, including meeting financial ratios and tests, may be affected by events beyond our control. If a default occurs under these agreements, lenders could terminate their commitments to lend or accelerate the outstanding loans and declare all amounts borrowed due and payable. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. If any of these events occur, our assets might not be sufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that are favorable or acceptable. If we were unable to repay amounts borrowed, the holders of the debt could initiate a bankruptcy proceeding or liquidation proceeding against collateral.

Because we have a limited operating history, 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.

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.-flag 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-U.S. 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.

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

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

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

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

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our property consists primarily of jackup rigs, barge rigs, submersible rigs, a platform rig, marine support vessels, liftboats and ancillary equipment, substantially all of which we own. Several of our vessels and substantially all of our other personal property, are pledged to collateralize our senior secured credit agreement.

We maintain our principal executive office in Houston, Texas, which is under lease. We lease office space in Lafayette, Louisiana; Houma, Louisiana; La Romaine, Trinidad; Luanda, Angola; and Ciudad del Carmen, Mexico. We also lease warehouses and yard facilities in Houma, Louisiana; Broussard, Louisiana and La Romaine, Trinidad. We lease warehouses, office space and residential premises in Qatar, India, Nigeria and Cayman Islands. In addition, we lease a waterfront dock and maintenance facility in Nigeria.

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

Item 3. *Legal Proceedings*

In March 2007, two TODCO stockholder lawsuits were filed in the District Court of Harris County, Texas, both alleging that the TODCO board of directors (which includes three of our current directors) breached their fiduciary duties in approving the merger with a subsidiary of our company. The first lawsuit, *Frank Donio v. Jan Rask, et al* , then pending in the 269th Judicial District Court of Harris County, Texas, Cause No. 2007-16357, is a purported stockholder class action suit against the TODCO directors and contains claims for breach of fiduciary duty. The second lawsuit, *Robert Foster v. Jan Rask, et al.*, then pending in the 333rd Judicial District Court of Harris County, Texas, Cause No. 2007-16397, is a stockholder derivative action purportedly filed on behalf of TODCO against the TODCO directors (which includes three of our current directors) and us, and contains claims for breach of fiduciary duties of loyalty, due care, candor, good faith and/or fair dealing; corporate waste; unlawful self dealing; and claims that the defendants conspired, aided and abetted and/or assisted one another in a common plan to breach these fiduciary duties. Both lawsuits allege, among other things, that the TODCO directors engaged in self-dealing in approving the merger with us by advancing their own personal interests or those of TODCO s senior management at the expense of the TODCO stockholders, utilized a defective sales process not designed to maximize TODCO stockholder value, and failed to consider any value maximizing alternatives, thus causing TODCO stockholders to receive an unfair price for their shares of TODCO common stock. The second lawsuit also alleges that we conspired, aided and abetted or assisted in these violations. In addition, the second suit alleges that TODCO s directors breached their fiduciary duties by allegedly improperly awarding stock options to certain officers at a time when they allegedly knew the merger was imminent and the stock options would vest immediately upon consummation of the merger. The second suit also names the officers who received these stock option awards as defendants and alleges three causes of action against them: (1) a breach of fiduciary duty claim for having received allegedly improperly awarded stock options, (2) an unjust enrichment claim seeking a constructive trust, and (3) rescission of the stock option awards.

Both lawsuits seek, among other things, rescission of the merger, imposition of a constructive trust in favor of plaintiffs upon any benefits improperly received by the defendants, attorneys fees and expenses associated with the lawsuits and any other equitable relief the courts deem just and proper. On August 29, 2007, the two lawsuits were consolidated and transferred to the 270th Judicial District Court of Harris County,

Texas. We, the TODCO directors, and the officers named as defendants believe the asserted claims are without merit, and each intends to defend them vigorously.

In connection with our acquisition of TODCO, we also assumed certain other material legal proceedings from TODCO and its subsidiaries.

In October 2001, TODCO was notified by the U.S. Environmental Protection Agency (EPA) that the EPA had identified a subsidiary of TODCO as a potentially responsible party under CERCLA in connection with the Palmer Barge Line superfund site located in Port Arthur, Jefferson County, Texas. Based upon the information provided by the EPA and our review of our internal records to date, we dispute our designation as a potentially responsible party and do not expect that the ultimate outcome of this case will have a material adverse effect on our consolidated results of operations, financial position or cash flows. We continue to monitor this matter.

Robert E. Aaron et al. vs. Phillips 66 Company et al. Circuit Court, Second Judicial District, Jones County, Mississippi. This is the case name used to refer to several cases that have been filed in the Circuit Courts of the State of Mississippi involving 768 persons that allege personal injury or whose heirs claim their deaths arose out of asbestos exposure in the course of their employment by the defendants between 1965 and 2002. The complaints name as defendants, among others, certain of TODCO s subsidiaries and certain of subsidiaries of TODCO s former parent to whom TODCO may owe indemnity and other unaffiliated defendant companies, including companies that allegedly manufactured drilling related products containing asbestos that are the subject of the complaints. The number of unaffiliated defendant companies involved in each complaint ranges from approximately 20 to 70. The complaints allege that the defendant drilling contractors used asbestos-containing products in offshore drilling operations, land based drilling operations and in drilling structures, drilling rigs, vessels and other equipment and assert claims based on, among other things, negligence and strict liability, and claims authorized under the Jones Act. The plaintiffs seek, among other things, awards of unspecified compensatory and punitive damages. All of these cases were assigned to a special master who has approved a form of questionnaire to be completed by plaintiffs so that claims made would be properly served against specific defendants. As of the date of this report, approximately 700 questionnaires were returned and the remaining plaintiffs, who did not submit a questionnaire reply, have had their suits dismissed without prejudice. Of the respondents, approximately 100 shared periods of employment by TODCO and its former parent which could lead to claims against either company, even though many of these plaintiffs did not state in their questionnaire answers that the employment actually involved exposure to asbestos. After providing the questionnaire, each plaintiff was further required to file a separate and individual amended complaint naming only those defendants against whom they had a direct claim as identified in the questionnaire answers. Defendants not identified in the amended complaints were dismissed from the plaintiffs litigation. To date, three plaintiffs named TODCO as a defendant in their amended complaints. It is possible that some of the plaintiffs who have filed amended complaints and have not named TODCO as a defendant may attempt to add TODCO as a defendant in the future when case discovery begins and greater attention is given to each individual plaintiff s employment background. We continue to monitor a small group of these other cases. We have not determined which entity would be responsible for such claims under the Master Separation Agreement between TODCO and its former parent. We intend to defend ourselves vigorously and, based on the limited information available at this time, do not expect the ultimate outcome of these lawsuits to have a material adverse effect on our consolidated results of operations, financial position or cash flows.

In December 2002, TODCO received an assessment for corporate income taxes from SENIAT, the national Venezuelan tax authority, of approximately $20.7 million (based on the current exchange rates at the time of the assessment and inclusive of penalties) relating to calendar years 1998 through 2000. In March 2003, TODCO paid approximately $2.6 million of the assessment, plus approximately $0.3 million in interest, and we are contesting the remainder of the assessment with the Venezuelan Tax Court. After TODCO made the partial assessment payment, it received a revised assessment in September 2003 of approximately $16.7 million (based on the current exchange rates at the time of the assessment and inclusive of penalties). Thereafter, TODCO filed an administrative tax appeal with

SENIAT and the tax authority rendered a decision that reduced the tax assessment to $8.1 million (based on the current exchange rates at the time of the decision). TODCO then initiated a judicial tax court appeal with the Venezuelan Tax Court to set aside the $8.1 million administrative tax assessment. We do not expect the ultimate resolution of this assessment to have a material impact on our consolidated results of operations, financial condition or cash flows. In January 2008, SENIAT commenced an audit for the 2003 calendar year. We have not yet received any proposed adjustments from SENIAT arising from this audit. We believe we are owed indemnity from TODCO s former parent under the tax sharing agreement for any losses we incur as a result of these legal proceedings.

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

We cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any such other pending litigation. There can be no assurance that our belief or expectations as to the outcome or effect of any lawsuit or other litigation matter will prove correct, and the eventual outcome of these matters could materially differ from management s current estimates.

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of security holders during the fourth quarter of 2007.

PART II

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

Quarterly Common Stock Prices and Dividend Policy

Our common stock is traded on the NASDAQ Global Select Market under the symbol HERO. As of February 20, 2008, there were 79 stockholders of record. On February 20, 2008, the closing price of our common stock as reported by NASDAQ was $26.75 per share. The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock:

	Price	
	High	**Low**
2007		
Fourth Quarter	$ 28.43	$ 22.93
Third Quarter	34.98	24.88
Second Quarter	36.97	25.45
First Quarter	29.24	23.80

	Price	
	High	**Low**
2006		
Fourth Quarter	$ 36.97	$ 28.14
Third Quarter	36.23	28.72
Second Quarter	43.89	29.14
First Quarter	36.70	27.68

We have not paid any cash dividends on our common stock since becoming a publicly held corporation in October 2005, and we do not intend to declare or pay regular dividends on our common stock in the foreseeable future. Instead, we generally intend to invest any future earnings in our business. Subject to Delaware law, our board of directors will determine the payment of future dividends on our common stock, if any, and the amount of any dividends in light of any applicable contractual restrictions limiting our ability to pay dividends, our earnings and cash flows, our capital requirements, our financial condition, and other factors our board of directors deems relevant. Our senior secured credit agreement restricts our ability to pay dividends or other distributions on our equity securities.

Issuer Purchases of Equity Securities

The following table sets forth for the periods indicated certain information with respect to our purchases of our common stock:

Total

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Number of Shares Purchased as Part of a Publicly Announced Plan(2)	Maximum Number of Shares that may yet be Purchased Under the Plan(2)
October 1 31, 2007			N/A	N/A
November 1 30, 2007	6,172	$ 26.95	N/A	N/A
December 1 31, 2007			N/A	N/A
Total	6,172	26.95	N/A	N/A

(1) Represents the surrender of shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees under our stockholder-approved long-term incentive plan.

(2) We did not have at any time during 2007 or 2006, and currently do not have, a share repurchase program in place.

Item 6. *Selected Financial Data*

We have derived the following condensed consolidated financial information as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 from our audited consolidated financial statements included in Item 8 of this annual report. The condensed consolidated financial information as of December 31, 2005 and 2004 and for the period from inception (July 27, 2004) to December 31, 2004 was derived from our audited consolidated financial statements included in Item 8 of our annual report on Form 10-K, as amended, for the year ended December 31, 2006.

We were formed in July 2004 and commenced operations in August 2004. From our formation to December 31, 2007, we completed the acquisition of TODCO and several significant asset acquisitions that impact the comparability of our historical financial results. Our financial results reflect the impact of the TODCO business and the asset acquisitions from the date of closing. We have included pro forma information related to the TODCO acquisition in Note 4 to the Consolidated Financial Statements included in Item 8 of this annual report.

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. Upon the conversion, each outstanding membership interest of the limited liability company was converted to 350 shares of common stock of the corporation. Share-based information contained herein assumes that we had effected the conversion of each outstanding membership interest into 350 shares of common stock for all periods prior to the conversion. Prior to the conversion, our owners elected to be taxed at the member unit holder 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.

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

	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from Inception to December 31, 2004
	(In thousands, except per share data)			
Statement of Operations Data:				
Revenues	$ 766,793	$ 344,312	$ 161,334	$ 31,728
Operating income	231,459	158,057	55,859	9,907
Net income	136,522	119,050	27,456	8,065
Earnings per share:				
Basic	$ 2.32	$ 3.80	$ 1.10	$ 0.55
Diluted	2.29	3.70	1.08	0.55
Balance Sheet Data (as of end of period):				
Cash and cash equivalents	$ 212,452	$ 72,772	$ 47,575	$ 14,460

Working capital	327,684	110,897	70,083	30,283
Total assets	3,642,539	605,581	354,825	132,156
Long-term debt, net of current portion	890,013	91,850	93,250	53,000
Total stockholders equity	2,011,433	394,851	215,943	71,087
Cash dividends per share				

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	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from Inception to December 31, 2004
	(In thousands, except per share data)			
Other Financial Data:				
Net cash provided by (used in):				
Operating activities	$ 178,319	$ 124,241	$ 54,762	$ (8,528)
Investing activities	(825,007)	(149,983)	(174,952)	(94,241)
Financing activities	786,368	50,939	153,305	117,229
Capital expenditures	155,390	204,456	168,038	94,443
Deferred drydocking expenditures	20,772	12,544	7,369	601

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 included in Item 8 of this annual report. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Risk Factors in Item 1A and elsewhere in this annual report. See Forward-Looking Statements .

OVERVIEW

We provide shallow-water drilling and marine services to the oil and natural gas exploration and production industry in the U.S. Gulf of Mexico and internationally. We provide these services to major integrated energy companies, independent oil and natural gas operators and national oil companies.

In July 2007, we furthered our strategic growth initiative by completing the acquisition of TODCO for total consideration of approximately $2,397.8 million, consisting of $925.8 million in cash and 56.6 million shares of common stock. TODCO, a provider of contract drilling and marine services in the U.S. Gulf of Mexico and international markets, owned and operated 24 jackup rigs, 27 barge rigs, three submersible rigs, nine land rigs, one platform rig and a fleet of marine support vessels. The TODCO acquisition positioned us as a leading shallow-water drilling provider as well as expanded our international presence and diversified our fleet. In December 2007, we sold our land rigs for proceeds of $107.0 million.

We historically reported our business activities in four business segments, Domestic Contract Drilling Services, International Contract Drilling Services, Domestic Marine Services and International Marine Services. In connection with the acquisition of TODCO, we conducted a review of our segments. Our historical operating divisions have been combined with the acquired businesses and now operate as six divisions: (1) Domestic Offshore, (2) International Offshore, (3) Inland, (4) Domestic Liftboats, (5) International Liftboats and (6) Other. Domestic Offshore includes our legacy Domestic Contract Drilling Services businesses and TODCO s domestic offshore rigs operating in the U.S. Gulf of Mexico, while International Offshore includes our legacy International Contract Drilling Services and TODCO s offshore rigs operating internationally. Inland includes the acquired U.S. inland barge business. Domestic Liftboats includes our legacy Domestic Marine Services business, while International Liftboats includes our legacy

International Marine Services business. Our Other segment includes Delta Towing and the activities of our land rigs. We sold the land rigs in December 2007. The following describes our operations for each reporting segment:

Domestic Offshore operates 24 jackup rigs and three submersible rigs in the U.S. Gulf of Mexico that can drill in maximum water depths ranging from 85 to 250 feet.

International Offshore operates nine jackup rigs and one platform rig outside of the U.S. Gulf of Mexico. We have one jackup rig working offshore in each of the following international locations: Qatar, India, Angola, Cameroon and Trinidad. This segment operates two jackup rigs and one platform rig in

Mexico. In addition, this segment has one jackup rig currently undergoing reactivation in Southeast Asia and one jackup rig currently undergoing contract preparation work and customer acceptance in India.

Inland operates a fleet of 12 conventional and 15 posted barge rigs that operate inland in marshes, rivers, lakes and shallow bay or coastal waterways along the U.S. Gulf Coast.

Domestic Liftboats operates 47 liftboats in the U.S. Gulf of Mexico.

International Liftboats operates 18 liftboats offshore West Africa, including five liftboats owned by a third party and one undergoing refurbishment.

Other our Delta Towing business operates a fleet of 33 inland tugs, 17 offshore tugs, 34 crew boats, 45 deck barges, 17 shale barges and four spud barges along and in the U.S. Gulf of Mexico. In December 2007, we sold our land rig operations which included one land rig in Trinidad, two land rigs in the United States and six land rigs in Venezuela.

Our jackup and submersible rigs and our barge rigs are used primarily for exploration and development drilling in shallow waters. Under most of our contracts, we are paid a fixed daily rental rate called a dayrate, and we are required to pay all costs associated with our own crews as well as the upkeep and insurance of the rig and equipment.

Our liftboats are self-propelled, self-elevating vessels that support a broad range of offshore support services, including platform maintenance, platform construction, well intervention and decommissioning services throughout the life of an oil or natural gas well. Under most of our liftboat contracts, we are paid a fixed dayrate for the rental of the vessel, which typically includes the costs of a small crew of four to eight employees, and we also receive a variable rate for reimbursement of other operating costs such as catering, fuel, 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 international drilling contracts and some of our liftboat contracts in West Africa are longer term in nature.

Our operating costs are primarily a function of fleet configuration and utilization levels. The most significant direct operating costs for our Domestic Offshore, International Offshore and Inland segments are wages paid to crews, maintenance and repairs to the rigs, and insurance. These costs do not vary significantly whether the rig is operating under contract or idle, unless we believe that the rig is unlikely to work for a prolonged period of time, in which case we may decide to cold-stack or warm-stack the rig. Cold-stacking is a common term used to describe a rig that is expected to be idle for a protracted period and typically for which routine maintenance is suspended and the crews are either redeployed or laid-off. When a rig is cold-stacked, operating expenses for the rig are significantly reduced because the crew is smaller and maintenance activities are suspended. Placing rigs in service that have been cold-stacked typically requires a lengthy reactivation project that can involve significant expenditures and potentially additional regulatory review, particularly if the rig has been cold-stacked for a long period of time. Warm-stacking is a term used for a rig expected to be idle for a period of time that is not as prolonged as is the case with a cold-stacked rig. Maintenance is continued for warm-stacked rigs. Crews are reduced through attrition and redeployment, but a small crew is retained. Warm-stacked rigs generally can be reactivated in one to two weeks.

The most significant costs for our Domestic Liftboats and International Liftboats segments are the wages paid to crews and the amortization of regulatory drydocking costs. Unlike our Domestic Offshore; International Offshore and Inland segments, a significant portion of the expenses incurred with operating each liftboat are paid for or reimbursed by the customer under contractual terms and prices. This includes catering, 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 length of time in drydock vary depending on the condition of the vessel.

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RESULTS OF OPERATIONS

On July 11, 2007, we completed the acquisition of TODCO for total consideration of approximately $2,397.8 million, consisting of $925.8 million in cash and 56.6 million shares of common stock. Our 2007 results include activity from this acquired business from the date of acquisition. The acquisition significantly impacts the comparability of the 2007 period with the other periods presented.

Domestic industry conditions were generally weaker for jackup rigs during 2007 compared to 2006, as evidenced by our lower dayrates and utilization. Despite a continued reduction in supply, jackup dayrates in the U.S. Gulf of Mexico generally peaked in early summer of 2006 and have since declined due to a decline in drilling activity. Demand for jackup rigs reached a low of 47 rigs in October 2007. International industry conditions remained strong throughout 2006 and 2007. Liftboat dayrates increased throughout 2007 in the United States and West Africa.

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

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Domestic Offshore:			
Number of rigs (as of end of period)	27	6	9
Revenues	$ 241,452	$ 160,761	$ 103,422
Operating Expenses	122,131	51,862	48,330
Depreciation and amortization expense	35,143	8,882	5,547
General and administrative expenses	6,105	6,980	5,486
Operating income	$ 78,073	$ 93,037	$ 44,059
International Offshore:			
Number of rigs (as of end of period)	10	3	
Revenues	$ 144,778	$ 30,460	$
Operating expenses	59,593	13,377	
Depreciation and amortization expense	15,513	2,547	
General and administrative expenses	1,863	1,606	
Operating income	$ 67,809	$ 12,930	$
Inland:			
Number of rigs (as of end of period)	27		
Revenues	$ 107,100	$	$
Operating expenses	56,636		
Depreciation and amortization expense	16,264		
General and administrative expenses	533		
Operating income	$ 33,667	$	$

Domestic Liftboats:			
Number of liftboats (as of end of period)	47	47	42
Revenues	$ 137,745	$ 133,929	$ 55,740
Operating expenses	59,902	49,025	28,413
Depreciation and amortization expense	24,969	18,854	8,031
General and administrative expenses	2,190	2,259	1,888
Operating income	$ 50,684	$ 63,791	$ 17,408
International Liftboats:			
Number of liftboats (as of end of period)	18	17	4
Revenues	$ 63,282	$ 19,162	$ 2,172
Operating expenses	31,879	9,874	1,071
Depreciation and amortization expense	7,619	1,923	176
General and administrative expenses	3,888	3,056	336
Operating income	$ 19,896	$ 4,309	$ 589

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	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Other:			
Revenues	$ 72,436	$	$
Operating expenses	46,318		
Depreciation and amortization expense	9,028		
General and administrative expenses	1,011		
Operating income	$		