HERCULES OFFSHORE, INC.
Form 10-K/A
April 07, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
AMENDMENT NO. 2
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
Commission file number: 001-37623
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 Market

Securities registered pursuant to Section 12(g) of the Act:
Title of Class
Warrants to Purchase Common Stock
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2015, based on the closing price on the NASDAQ Global Select Market on such date, was approximately $36 million. As of such date, the registrant's directors and executive officers were considered affiliates of the registrant for this purpose.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes þ No ¨

As of March 24, 2016, there were 19,988,898 shares of the registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

We are filing this Amendment No. 2 on Form 10-K/A (this “Amendment”) to our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the Securities and Exchange Commission on March 30, 2016 (the “Original Filing”), as amended by Amendment No. 1 thereto filed with the Securities and Exchange Commission on April 5, 2016, in order to amend disclosure in Note 1 of Item 8 of the Original Filing and to make a conforming change to the Interactive Data Files filed as Exhibit 101 to the Original Filing.

Updated Interactive Data Files, a new consent by our Independent Registered Public Accounting Firm, and new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Amendment under Item 15 of Part IV hereof. Except for the foregoing amended information, this Amendment does not alter or update any other information contained in the Original Filing, as amended. This Amendment does not reflect events that may have occurred subsequent to the Original Filing.

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PART II

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Hercules Offshore, Inc. and subsidiaries as of December 31, 2015 (the "Successor Company" consolidated balance sheet) and 2014 (the "Predecessor Company" consolidated balance sheet), and the related consolidated statements of operations, equity and cash flows for the period from November 6, 2015 through December 31, 2015 (the Successor Company operations and cash flows), and for the period from January 1, 2015 through November 6, 2015, and each of the two years in the period ended December 31, 2014 (the Predecessor Company operations and cash flows). Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the Successor Company consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hercules Offshore, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the period from November 6, 2015 through December 31, 2015, in conformity with U.S. generally accepted accounting principles. Further, in our opinion, the Predecessor Company consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Predecessor Company as of December 31, 2014, and the results of their operations and their cash flows for the period from January 1, 2015 through November 6, 2015, and for each of the two years in the period ended December 31, 2014, in conformity with U.S generally accepted accounting principles in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 4 to the consolidated financial statements, on September 24, 2015, the Bankruptcy Court entered an order confirming the plan of reorganization, which became effective on November 6, 2015. Accordingly, the accompanying consolidated financial statements and schedule have been prepared in conformity with Accounting Standards Codification 852-10, Reorganizations, for the Successor Company as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as described in Note 1.

/s/ ERNST & YOUNG LLP
Houston, Texas
March 30, 2016, except for Note 1, as to which the date is April 7, 2016

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

	Successor December 31, 2015	Predecessor December 31, 2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$330,780	$207,937
Accounts Receivable, Net	63,668	166,359
Prepaids	11,740	19,585
Current Deferred Tax Asset	—	4,461
Other	4,015	5,955
	410,203	404,297
Property and Equipment, Net	465,497	1,574,749
Restricted Cash	200,000	—
Other Assets, Net	32,440	23,361
	$1,108,140	$2,002,407
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$43,616	$52,952
Accrued Liabilities	49,108	66,090
Interest Payable	—	32,008
Other Current Liabilities	6,148	13,406
	98,872	164,456
Long-term Debt	428,715	1,210,919
Deferred Income Taxes	—	4,147
Other Liabilities	16,622	7,854
Commitments and Contingencies		
Equity:		
Predecessor Common Stock, $0.01 Par Value; 300,000 Shares Authorized, 163,540 Shares Issued and 160,818 Shares Outstanding	—	1,635
Predecessor Capital in Excess of Par Value	—	2,179,838
Predecessor Treasury Stock, at Cost, 2,722 Shares	—	(56,765)
Successor Common Stock, $0.01 Par Value; 139,650 Shares Authorized, 20,000 Shares Issued and 19,989 Shares Outstanding	200	—
Successor Capital in Excess of Par Value	587,725	—
Successor Treasury Stock, at Cost, 11 Shares	(325)	—
Retained Deficit	(23,669)	(1,509,677)
	563,931	615,031
	$1,108,140	$2,002,407

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

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

	Successor Period from November 6, 2015 to December 31, 2015	Predecessor Period from January 1, 2015 to November 6, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Revenue	$32,442	$303,206	$900,251	$858,300
Costs and Expenses:				
Operating Expenses	29,675	271,988	543,236	461,332
Asset Impairment	—	—	199,508	114,168
Depreciation and Amortization	4,534	126,963	170,898	151,943
General and Administrative	7,120	79,884	75,108	79,425
	41,329	478,835	988,750	806,868
Operating Income (Loss)	(8,887)	(175,629)	(88,499)	51,432
Other Income (Expense):				
Interest Expense	(7,939)	(61,173)	(99,142)	(73,248)
Loss on Extinguishment of Debt	—	(1,884)	(19,925)	(29,295)
Gain on Equity Investment	—	—	—	14,876
Reorganization Items, Net	(1,330)	(357,050)	—	—
Other, Net	(4,785)	284	(39)	(1,518)
Loss Before Income Taxes	(22,941)	(595,452)	(207,605)	(37,753)
Income Tax Benefit (Provision)	(728)	(7,042)	(8,505)	10,944
Loss from Continuing Operations	(23,669)	(602,494)	(216,110)	(26,809)
Loss from Discontinued Operations, Net of Taxes	—	—	—	(41,308)
Net Loss	(23,669)	(602,494)	(216,110)	(68,117)
Loss attributable to Noncontrolling Interest	—	—	—	39
Net Loss attributable to Hercules Offshore, Inc.	$(23,669)	$(602,494)	$(216,110)	$(68,078)
Net Loss attributable to Hercules Offshore, Inc. Per Share:				
Basic and Diluted:				
Loss from Continuing Operations	$(1.18)	$(3.73)	$(1.35)	$(0.17)
Loss from Discontinued Operations	—	—	—	(0.26)
Net Loss	$(1.18)	$(3.73)	$(1.35)	$(0.43)
Basic and Diluted Weighted Average Shares Outstanding	19,989	161,430	160,598	159,501

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

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

	Successor Period from November 6, 2015 to December 31, 2015		Predecessor Period from January 1, 2015 to November 6, 2015		December 31, 2014		December 31, 2013	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock:								
Balance at Beginning of Period	—	$—	163,540	$1,635	162,144	$1,621	160,708	$1,607
Issuance of Successor Company Equity	20,000	200	—	—	—	—	—	—
Other	—	—	1,084	11	1,396	14	1,436	14
Cancellation of Predecessor Company Equity	—	—	(164,624)	(1,646)	—	—	—	—
Balance at End of Period	20,000	200	—	—	163,540	1,635	162,144	1,621
Capital in Excess of Par Value:								
Balance at Beginning of Period	—	—	—	2,179,838	—	2,170,811	—	2,159,744
Issuance of Successor Company Equity	—	587,699	—	—	—	—	—	—
Compensation Expense Recognized	—	26	—	6,922	—	8,348	—	9,960
Excess Tax Benefit From Stock-Based Arrangements, Net	—	—	—	—	—	548	—	825
Other	—	—	—	(11)	—	131	—	282
Cancellation of Predecessor Company Equity	—	—	—	(2,186,749)	—	—	—	—
Balance at End of Period	—	587,725	—	—	—	2,179,838	—	2,170,811
Treasury Stock:								
Balance at Beginning of Period	—	—	(2,722)	(56,765)	(2,383)	(55,165)	(2,080)	(53,100)
Repurchase of Common Stock	(11)	(325)	(261)	(178)	(339)	(1,600)	(303)	(2,065)
Cancellation of Predecessor Company Equity	—	—	2,983	56,943	—	—	—	—
Balance at End of Period	(11)	(325)	—	—	(2,722)	(56,765)	(2,383)	(55,165)

Retained Deficit:								
Balance at Beginning of Period	—	—	—	(1,509,677)	—	(1,293,567)	—	(1,225,489)
Net Loss attributable to Hercules Offshore, Inc.	—	(23,669)	—	(602,494)	—	(216,110)	—	(68,078)
Cancellation of Predecessor Company Equity	—	—	—	2,112,171	—	—	—	—
Balance at End of Period	—	(23,669)	—	—	—	(1,509,677)	—	(1,293,567)
Total Hercules Offshore, Inc. Stockholders' Equity	19,989	563,931	—	—	160,818	615,031	159,761	823,700
Noncontrolling Interest:								
Balance at Beginning of Period	—	—	—	—	—	—	—	—
Acquisition of Interest in Discovery	—	—	—	—	—	—	—	26,448
Acquisition of Noncontrolling Interest in Discovery	—	—	—	—	—	—	—	(26,409)
Loss Attributable to Noncontrolling Interest	—	—	—	—	—	—	—	(39)
Balance at End of Period	—	—	—	—	—	—	—	—
Total Equity	19,989	$563,931	—	$—	160,818	$615,031	159,761	$823,700

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

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

	Successor Period from November 6, 2015 to December 31, 2015	Predecessor Period from January 1, 2015 to November 6, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash Flows from Operating Activities:				
Net Loss	$(23,669)	$(602,494)	$(216,110)	$(68,078)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:				
Depreciation and Amortization	4,534	126,963	170,898	162,841
Stock-Based Compensation Expense	26	6,922	8,348	9,960
Deferred Income Taxes	16	1,931	(7,691)	(30,940)
Provision for Doubtful Accounts Receivable	1,855	7,665	5,627	642
(Gain) Loss on Disposal of Assets, Net	(28)	970	(22,598)	7,355
Asset Impairment	—	—	199,508	158,538
Gain on Equity Investment	—	—	—	(14,876)
Gain on Insurance Settlement	—	(1,125)	—	(31,600)
Non-Cash Portion of Loss on Extinguishment of Debt	—	1,818	1,900	9,012
Non-Cash Reorganization Items, Net	—	344,231	—	—
Non-Cash Loss on Derivative	4,837	—	—	—
Other	342	1,453	2,910	8,319
(Increase) Decrease in Operating Assets -				
Accounts Receivable	(1,278)	94,449	48,153	(53,643)
Prepaid Expenses and Other	3,875	8,860	2,323	15,214
Increase (Decrease) in Operating Liabilities -				
Accounts Payable	(5,637)	(12,027)	(27,066)	20,357
Insurance Notes Payable	—	—	(9,568)	(31,462)
Other Current Liabilities	(11,826)	3,146	(36,317)	17,753
Other Liabilities	494	7,637	(5,604)	3,078
Net Cash Provided by (Used in) Operating Activities	(26,459)	(9,601)	114,713	182,470
Cash Flows from Investing Activities:				
Acquisition of Assets, Net of Cash Acquired	—	—	—	(200,957)
Capital Expenditures	(5,066)	(78,097)	(147,522)	(544,987)
(Increase) Decrease in Restricted Cash	—	(200,000)	—	2,027
Insurance Proceeds Received	—	3,543	9,067	51,430
Proceeds from Sale of Assets, Net	78	9,697	35,135	117,350
Other	377	227	1,479	2,474
Net Cash Used in Investing Activities	(4,611)	(264,630)	(101,841)	(572,663)
Cash Flows from Financing Activities:				
Long-term Debt Borrowings	—	436,500	300,000	700,000
Redemption of 7.125% Senior Secured Notes	—	—	(300,000)	—
Redemption of 3.375% Convertible Senior Notes	—	—	—	(61,274)
Redemption of 10.5% Senior Notes	—	—	—	(300,000)
Payment of Debt Issuance Costs	—	(8,356)	(3,914)	(10,643)

Other	—	—	573	1,323
Net Cash Provided by (Used in) Financing Activities	—	428,144	(3,341)	329,406
Net Increase (Decrease) in Cash and Cash Equivalents	(31,070)	153,913	9,531	(60,787)
Cash and Cash Equivalents at Beginning of Period	361,850	207,937	198,406	259,193
Cash and Cash Equivalents at End of Period	$330,780	$361,850	$207,937	$198,406

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

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

1. Nature of Business

Amendment

The Company has amended the disclosures in Note 1 to clarify that the Company includes management and a majority of the Board of Directors.

Organization

Hercules Offshore, Inc., a Delaware corporation, and its majority owned subsidiaries (the “Company”) provide shallow-water drilling and marine services to the oil and natural gas exploration and production industry globally through its Domestic Offshore, International Offshore and International Liftboats segments (See Note 17). At December 31, 2015, the Company operated a fleet of 27 jackup rigs (18 marketed, 9 cold stacked), including one rig under construction, and 19 liftboat vessels (18 marketed, 1 cold stacked). The Company’s diverse fleet is capable of providing services such as oil and gas exploration and development drilling, well service, platform inspection, maintenance, and decommissioning operations in several key shallow-water provinces around the world.

On August 13, 2015 (the "Petition Date"), Hercules Offshore, Inc. and certain of its U.S. domestic direct and indirect subsidiaries (together with Hercules Offshore, Inc., the “Debtors”) filed voluntary petitions (the "Bankruptcy Petitions") for reorganization ("Chapter 11 Cases") under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Court”). Through the Chapter 11 Cases, the Debtors implemented the Plan in accordance with the RSA that the Debtors entered into with the Steering Group Members. The Chapter 11 Cases were jointly administered under the caption In re: Hercules Offshore, Inc., et al (Case No. 15-11685). The Company's foreign subsidiaries and one U.S. domestic subsidiary ("Non-Filing Entities") were not party to the Bankruptcy filing. Since the petition date, the Debtors operated their business as "debtors-in-possession" under the jurisdiction of the Court and in accordance with applicable provisions of the Bankruptcy Code and orders of the Court until their emergence on November 6, 2015 from bankruptcy. The Non-Filing Entities continued to operate in the ordinary course of business.

Upon the Company’s emergence from Chapter 11 on November 6, 2015, the Company adopted fresh-start accounting in accordance with provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 852, “Reorganizations” (“ASC 852”) which resulted in Hercules becoming a new entity for financial reporting purposes. Upon adoption of fresh-start accounting, the Company’s assets and liabilities were recorded at their fair values as of the fresh-start reporting date. The fair values of the Company’s assets and liabilities in conformance with ASC 805, “Business Combinations,” as of that date differed materially from the recorded values of its assets and liabilities as reflected in its historical consolidated financial statements. In addition, the Company’s adoption of fresh-start accounting may materially affect its results of operations following the fresh-start reporting dates, as the Company will have a new basis in its assets and liabilities. Consequently, the Company’s historical financial statements may not be reliable indicators of its financial condition and results of operations for any period after it adopted fresh-start reporting. As a result of the adoption of fresh-start reporting and the effects of the implementation of the Plan, the Company’s consolidated balance sheets and consolidated statements of operations subsequent to November 6, 2015 will not be comparable to its consolidated balance sheets and consolidated statements of operations prior to November 6, 2015 (See Note 5).

Subsequent to the Petition Date, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization of the business are reported as Reorganization Items, Net in the accompanying Consolidated Statement of Operations.

The audited consolidated financial statements included in this Annual Report on Form 10-K have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the ordinary course of business. During the Chapter 11 proceedings, the Company’s ability to continue as a going concern, was contingent upon, among other factors, the Debtors’ ability to satisfy the remaining conditions to effectiveness contemplated under the Plan and to implement such plan of reorganization, including obtaining any exit financing.

References to “Successor” or “Successor Company” relate to Hercules on and subsequent to November 6, 2015. References to “Predecessor” or “Predecessor Company” refer to Hercules on and prior to November 6, 2015.

Current Market Environment

Demand for the Company’s oilfield services is driven by its exploration and production customers’ capital spending, which can experience significant fluctuation depending on current commodity prices and their expectations of future price levels, among other factors. The decline in the price of crude oil that began in mid-2014 and extending into 2016 has severely impacted dayrates and demand for the Company’s services. In addition to the oil price decline, the consolidation of the domestic customer base has negatively impacted demand for jackup rigs in the U.S. Gulf of Mexico. Internationally, the new capacity growth expected over the next three years could put further pressure on the operating environment for the existing jackup rig fleet. Although activity levels for liftboats are not as closely correlated to commodity prices as the Company’s drilling segments, commodity prices are still a key driver of liftboat demand. Demand for liftboat services in West Africa has been weak, which the Company believes has been driven by budgetary constraints with major customers primarily in Nigeria.

The Company has taken numerous actions to mitigate the effects of the decline in activity levels, including but not limited to: (i) cold stacking nine rigs and warm stacking seven rigs since the fourth quarter of 2014 to significantly reduce operating expenses, (ii) significantly reducing its capital expenditures in 2015 and the amount planned for 2016 and (iii) significantly reducing its workforce, both onshore and offshore. The Company continues to monitor its operating environment and will respond to further activity level declines as appropriate.

Although the Company is exploring all strategic alternatives, the Company does not believe that there is substantial doubt about the Company’s ability to continue as a going concern through 2016. As part of that assessment, based on facts known to the Company as of the filing of this Form 10-K, management and a majority of the members of the Company's board of directors do not believe it is more likely than not that a bankruptcy filing will occur during 2016. Further, the Company does not intend to pursue any strategic action that results in an event of default under the Credit Agreement during 2016. The Company is currently projecting, however, that they will violate the Maximum Senior Secured First Lien Leverage Ratio on March 31, 2017. If this occurs and the Company is not able to obtain a waiver from its lenders, the lenders could accelerate these debt obligations. In addition, the Company would be required to pay an additional premium of all interest that would accrue until November 6, 2018, plus a 3% premium, discounted to present value ("Applicable Premium"). Because of this Applicable Premium, it could be challenging for the Company to obtain a waiver, and further, given the current state of the drilling market, the Company does not believe refinancing would be a viable option.

Any strategic transaction we may pursue would result in potential changes to our current business strategy and future operations and prospects. If we determine to pursue an alternative strategy or engage in a strategic transaction, our future business, prospects, financial position and operating results would likely be significantly different than those in historical periods or projected by our management.

Dayrate Reductions

On February 25, 2015, the Company received a notice from Saudi Aramco terminating for convenience its drilling contract for the Hercules 261, effective on or about March 27, 2015. The Company received subsequent notices from Saudi Aramco extending the effective date of termination to May 31, 2015. On June 1, 2015, the Company received notice from Saudi Aramco reinstating the drilling contract on the Hercules 261, in exchange for dayrate concessions on the Hercules 261, Hercules 262 and Hercules 266 from their existing contracted rates to $67,000 per day. These reduced dayrates were effective retroactively from January 1, 2015 through December 31, 2016 for the Hercules 261 and Hercules 262, and through the remaining contract term for the Hercules 266. However, on March 9, 2016, we received a notice from Saudi Aramco further reducing the dayrates under the contracts for the Hercules 261 and Hercules 262 from $67,000 per day to $63,650 per day. The reduced dayrates will apply retroactively from January 1, 2016, through December 31, 2016. The dayrate for the Hercules 266 was also reduced from $67,000 per day to $63,650 per day effective January 1, 2016, through the remaining term of its contract, or April 7, 2016.

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2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries from the date a majority controlling interest was acquired (See Note 8). All intercompany account balances and transactions have been eliminated.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, property and equipment, income taxes, insurance, employment benefits and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Revenue Recognition

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

Stock-Based Compensation

The Company recognizes compensation cost for all share-based payments awarded in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, Compensation — Stock Compensation (“ASC 718”) and in accordance with such the Company records the grant date fair value of time-based restricted stock awarded as compensation expense using a straight-line method over the requisite service period. Performance based awards were recognized using the accelerated method over the requisite service period. The fair value of the Company’s awards that are share settled are based on the closing price of the Company’s common stock on the date of grant. For those performance based grants that contained a market performance condition, the Monte Carlo simulation was used for valuation as of the date of grant. All of the Company’s cash settled awards were recorded as a liability at fair value, which was remeasured at the end of each reporting period, over the requisite service period. The Company’s cash settled liability awards that contained market performance conditions were valued using a Monte Carlo simulation. The Company also estimates future forfeitures and related tax effects. The Company’s estimate of compensation expense requires a number of assumptions and changes to those assumptions could result in different valuations for individual share awards. On November 6, 2015, the date the Plan became effective pursuant to its terms and the Debtors emerged from Chapter 11, all share-based awards requiring share settlement that were granted under the Predecessor were canceled. Certain award agreements requiring cash settlement contained change of control provisions which provided for vesting (See Note 10). The Successor Company has only granted time-based restricted stock (See Note 10).

Due to the uncertainty in the level of awards to be granted in the future, the Company's estimate of future expense relating to restricted stock granted through December 31, 2015 as well as the remaining vesting period over which the associated expense is to be recognized are estimates and subject to change.

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

Accounts Receivable and Allowance for Doubtful Accounts
Accounts receivable are stated at the historical carrying amount net of write-offs and the allowance for doubtful accounts. The Company monitors the accounts receivable from its customers for any collectability issues. An allowance for doubtful accounts is established based on reviews of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors. The Company establishes an allowance for doubtful accounts based on the actual amount it believes is not collectable. During the period January 1, 2015 to November 6, 2015, the Predecessor Company's allowance for doubtful accounts increased $7.7 million primarily due to an uncollectable receivable identified in its International Liftboats segment. In connection with the application of fresh-start accounting on November 6, 2015, the carrying value of accounts receivable was adjusted to fair value, eliminating the allowance for doubtful accounts. The Successor Company's allowance for doubtful accounts increased $1.9 million, primarily due to a disputed receivable balance identified in its International Offshore segment. The Company had an allowance of $1.9 million and $5.7 million at December 31, 2015 and 2014, respectively.
Business Combinations
The Company accounted for the 2013 acquisition of Discovery as a business combination (See Note 8).
Property and Equipment and Impairment of Long-lived Assets
Property and equipment are recorded at cost, less accumulated depreciation. In connection with fresh-start accounting, property and equipment were adjusted to their estimated fair value and depreciable lives were revised as of November 6, 2015. Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred.
Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the useful lives of the assets. Depreciation of leasehold improvements is computed utilizing the straight-line method over the lease term or life of the asset, whichever is shorter.
The useful lives of property and equipment for the purposes of computing depreciation are as follows:

	Years
Drilling rigs and marine equipment (salvage value of 5%) *	10–30
Drilling machinery and equipment	2–12
Other	3–20

* Salvage value for predecessor was 10%.
The carrying value of long-lived assets, principally property and equipment, is reviewed for potential impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable or when reclassifications are made between property and equipment and assets held for sale. Factors that might indicate a potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset, a significant change in the long-lived asset’s physical condition, a change in industry conditions or a substantial reduction in cash flows associated with the use of the long-lived asset. For property and equipment held for use, the determination of recoverability is made based upon the estimated undiscounted future net cash flows of the related asset or group of assets being evaluated. Actual impairment charges are recorded using an estimate of discounted future cash flows. This evaluation requires the Company to make judgments regarding long-term forecasts of future revenue and costs. In turn these forecasts are uncertain in that they require assumptions about demand for the Company’s services, future market conditions and technological developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific asset groups and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.
Supply and demand are the key drivers of rig and vessel utilization and the Company’s ability to contract its rigs and vessels at economical rates. During periods of an oversupply, it is not uncommon for the Company to have rigs or vessels idled for extended periods of time, which could indicate that an asset group may be impaired. The Company’s rigs and vessels are mobile units, equipped to operate in geographic regions throughout the world and, consequently,

the Company may move rigs and vessels from an oversupplied region to one that is more lucrative and undersupplied when it is economical to do so. As such, the Company's rigs and vessels are considered to be interchangeable within classes or asset groups and accordingly, the Company performs its impairment evaluation by asset group.

The Company's estimates, assumptions and judgments used in the application of its property and equipment accounting policies reflect both historical experience and expectations regarding future industry conditions and operations. Using different

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES
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estimates, assumptions and judgments, especially those involving the useful lives and salvage values of the Company's rigs and liftboats and expectations regarding future industry conditions and operations, would result in different carrying values of assets and results of operations. For example, a prolonged downturn in the drilling industry in which utilization and dayrates were significantly reduced could result in an impairment of the carrying value of the Company's assets.

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

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

Other Intangible Assets

In connection with the application of fresh-start accounting on November 6, 2015, the Company recorded intangible assets of $25.3 million related to the fair value of certain customer contracts and $1.2 million related to our corporate office lease which was favorable relative to available market terms at November 6, 2015. The intangible assets related to the customer contracts are being amortized on a straight-line basis over the life of the contracts once those contracts have commenced, which in the case of one of the customer contracts commencement is not expected until mid-2016. The intangible asset related to our corporate office lease is being amortized on a straight-line basis to rental expense over the remaining lease term. Amortization expense related to intangible assets was $0.2 million for the period November 6, 2015 to December 31, 2015. Intangible assets are included in Other Assets, Net on the Consolidated Balance Sheet at December 31, 2015.

	Successor December 31, 2015			
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Customer Contracts	$25,300	$117	$25,183	4.9 years
Corporate Office Lease Intangible	1,178	91	1,087	2.2 years
Total	$26,478	$208	$26,270	

Future estimated amortization expense for the carrying amount of intangible assets as of December 31, 2015 is expected to be as follows (in thousands):

2016	$3,177
2017	5,463
2018	4,920
2019	4,920
2020	4,920
Thereafter	2,870
Total	$26,270

Restricted Cash

Restricted cash at December 31, 2015 is $200.0 million held in an escrow account to be used to finance the remaining installment payment on the Hercules Highlander and the expenses, costs and charges related to the construction and

purchase of the Hercules Highlander (See Note 18). The Company includes any changes in restricted cash for the purpose of financing or purchasing property and equipment to be held and used in providing services as Cash flows from investing activities.

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Accrued Self-Insurance Reserves

The Company is self-insured up to certain retention limits for maritime employer's liability claims and protection and indemnity claims. The amounts in excess of the self-insured levels are fully insured, up to a limit. Self-insurance reserves are based on estimates of (i) claims reported and (ii) loss amounts incurred but not reported. Reserves for reported claims are estimated by the Company's internal risk department by evaluating the facts and circumstances of each claim and are adjusted from time to time based upon the status of each claim and the Company's historical experience with similar claims. Reserves for loss amounts incurred but not reported are estimated by the Company's third-party actuary and include provisions for expected development on claims reported due to information not yet received and expected development on claims to be reported in the future but which have occurred prior to the accounting date. As of December 31, 2015 and 2014, there was $18.5 million and $24.5 million in accrued self-insurance reserves, respectively, which is included in Accrued Liabilities on the Consolidated Balance Sheets. The actual outcome of any claim could differ significantly from estimated amounts.

Income Taxes

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

Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future.

The Company considers estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Changes in these estimates and assumptions, as well as changes in tax laws, could require the Company to adjust the valuation allowance for deferred taxes in the future. The adjustments to the valuation allowance impact the Company’s income tax provision in the period in which such adjustments are identified and recorded.

Certain of the Company’s international rigs and liftboats are owned or operated, directly or indirectly, by the Company’s wholly owned Cayman Islands subsidiaries. U.S. Federal deferred tax liabilities are recorded for the unremitted earnings of foreign subsidiaries that are not permanently reinvested; otherwise, no U.S. Federal deferred taxes are provided on foreign subsidiaries. In certain circumstances, management expects that, due to the changing demands of the offshore drilling and liftboat markets and the ability to redeploy the Company’s offshore units, certain of such units will not reside in a location long enough to give rise to future tax consequences in that location. As a result, no deferred tax asset or liability has been recognized in these circumstances. Should management’s expectations change regarding the length of time an offshore drilling unit will be used in a given location, the Company would adjust deferred taxes accordingly.

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Earnings Per Share

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

(in thousands)	Successor Period from November 6, 2015 to December 31, 2015	Predecessor Period from January 1, 2015 to November 6, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Numerator:				
Loss from continuing operations	$(23,669)	$(602,494)	$(216,110)	$(26,809)
Less: Loss attributable to noncontrolling interest	—	—	—	39
Adjusted loss from continuing operations	(23,669)	(602,494)	(216,110)	(26,770)
Loss from discontinued operations, net of taxes	—	—	—	(41,308)
Net loss attributable to Hercules Offshore, Inc.	$(23,669)	$(602,494)	$(216,110)	$(68,078)
Denominator:				
Weighted average basic and diluted shares outstanding	19,989	161,430	160,598	159,501

The Company calculates basic earnings per share by dividing both income (loss) from continuing operations and net income (loss) attributable to Hercules Offshore, Inc. by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing both income from continuing operations and net income attributable to Hercules Offshore, Inc. by the weighted average number of shares outstanding during the period as adjusted for the dilutive effect of the Company's stock equivalents, which for the Predecessor included stock option, time-based restricted stock and performance-based restricted stock awards and for the Successor included time-based restricted stock awards and warrants. The effect of stock equivalents is not included in the computation for periods in which a net loss occurs, because to do so would be anti-dilutive. The Company's diluted earnings per share calculation for the periods November 6, 2015 to December 31, 2015 and January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013 excludes 5.1 million, 5.6 million, 6.4 million and 6.3 million stock equivalents, respectively, that would have potentially been included if the Company had generated income from continuing operations and net income attributable to Hercules Offshore, Inc. for the respective period, but are excluded as the Company generated a loss from continuing operations and net loss during the respective period. For the Predecessor, there were no stock equivalents to exclude from the calculation of the dilutive effect of stock equivalents for the diluted earnings per share calculations for the period January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013 related to the assumed conversion of the 3.375% Convertible Senior Notes as there was no excess of conversion value in any of these periods.

3. Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this ASU require that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for disposals of a significant part of an organization that does not qualify as discontinued operations. The amendments in this ASU are effective prospectively for annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company adopted ASU 2014-08 as of January 1, 2015 with no material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of promised goods or

services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. Adoption is permitted under the ASU using either a full or modified retrospective application approach. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU No. 2014-09 for all entities by one year and makes it effective for public entities to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

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Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is in the process of evaluating the impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and in certain circumstances to provide related footnote disclosures. The ASU is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company is in the process of evaluating the impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years using a retrospective approach, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Early adoption is permitted for financial statements that have not been previously issued. As of November 6, 2015, upon the adoption of fresh-start accounting, the Successor Company adopted ASU 2015-03 as a new accounting principle. As a result, the Company has not applied ASU 2015-03 to the Predecessor Company Balance Sheets.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU. The ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. As of November 6, 2015, upon the adoption of fresh-start accounting, the Successor Company adopted ASU 2015-17 as a new accounting principle. As a result, the Company has not applied ASU 2015-17 to the Predecessor Company Balance Sheets.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The FASB is issuing this Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic 842 is that a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Under previous GAAP, lessees did not recognize lease assets and lease liabilities for those leases classified as operating leases. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of this amendment is permitted. The Company is in the process of evaluating the impact of this accounting standard on its consolidated financial statements.

4. Bankruptcy, Emergence from Voluntary Reorganization under Chapter 11 Proceedings and Related Events

On June 17, 2015, Hercules Offshore, Inc. and certain of its U.S. domestic direct and indirect subsidiaries (together with Hercules Offshore, Inc., the “Debtors”) entered into an agreement (the “Restructuring Support Agreement” or "RSA") with certain holders (the “Steering Group Members”) collectively owning or controlling in excess of 66 2/3% of the aggregate outstanding principal amount of the Company’s 10.25% senior notes due 2019, 8.75% senior notes due 2021, 7.5% senior notes due 2021 and 6.75% senior notes due 2022 (the “Outstanding Senior Notes”).

The RSA set forth, subject to certain conditions, the commitment to and obligations of, on the one hand, the Debtors, and on the other hand, the Steering Group Members (and any successors or permitted assigns that become party thereto) in connection with a restructuring of the Outstanding Senior Notes, the Company’s 3.375% convertible senior notes due 2038 (the “Convertible Notes”), the Company’s 7.375% senior notes due 2018 (the “Legacy Notes”) (collectively

all the "Outstanding Notes") and the Company's common stock, par value $0.01 per share (the “Existing Common Stock”) (the “Restructuring Transaction”) pursuant to a pre-packaged or pre-negotiated plan of reorganization (the “Plan”) filed under Chapter 11 ("Chapter 11") of the United States Bankruptcy Code.

Pursuant to the terms of the RSA, the Steering Group Members agreed, among other things, and subject to certain conditions: (a) not to support any restructuring, reorganization, plan or sale process that is inconsistent with the RSA, and (b) not to instruct an agent or indenture trustee for any of the Outstanding Notes to take any action that is inconsistent with the

terms and conditions of the RSA, including, without limitation, the declaration of an event of default, or acceleration of the Outstanding Notes arising from, relating to, or in connection with the execution of the RSA; and at the request of the Company, to waive or agree to forbear from exercising any right to take action in respect of any default or acceleration that may occur automatically without action of any as a result of the operation of the indentures governing the Outstanding Notes.

The Company agreed, among other things, and subject to certain conditions: (a) to take no action that was materially inconsistent with the RSA, the Term Sheet or the Plan; and (b) not to support any alternative plan or transaction other than the Plan.

The Plan contemplated that the Debtors would reorganize as a going concern and continue their day-to-day operations substantially as currently conducted. Specifically, the material terms of the Plan were expected to effect, among other things, subject to certain conditions and as more particularly set forth in the Plan, upon the effective date of the Plan, a substantial reduction in the Debtors' funded debt obligations (including $1.2 billion of face amount of the Outstanding Notes). Certain principal terms of the Plan are outlined below.

•New capital raise of first lien debt with a maturity of 4.5 years and bearing interest at LIBOR plus 9.5% per annum (1.0% LIBOR Floor), payable in cash, issued at a price equal to 97% of the principal amount. The first lien debt will consist of $450 million for general corporate use and to finance the remaining construction cost of the Company's newbuild rig, the Hercules Highlander, and will be guaranteed by substantially all of the Company's U.S. domestic and international subsidiaries and secured by liens on substantially all of the Company's domestic and foreign assets. The first lien debt will include financial covenants and other terms and conditions.

•Exchange of the Outstanding Notes for 96.9% of the Company's common stock issued in the reorganization ("New Common Stock").

As the Plan was consummated as contemplated, holders of the Company's Existing Common Stock would receive 3.1% of the New Common Stock and would also receive warrants to purchase New Common Stock on a pro rata basis (the "Warrants"). The Warrants are exercisable at any time until their expiration date for a per share price based upon a $1.55 billion total enterprise value. The expiration date for the Warrants will be six years from the effective date of the reorganization, subject to the earlier expiration upon the occurrence of certain extraordinary events. If the terms for exercise of the Warrants are not met before the applicable expiration date, then holders of the Company's Existing Common Stock will receive only 3.1% of the New Common Stock and will not realize any value under the terms of the Warrants.

The entry into the RSA or the matters contemplated thereby may have been deemed to have constituted an event of default with respect to the Credit Facility and the Outstanding Notes. In connection with the RSA, the Company terminated its Credit Facility effective June 22, 2015. There were no amounts outstanding and no letters of credit issued under the Credit Facility at that time. The obligations under the Credit Facility were jointly and severally guaranteed by substantially all of the Company's domestic subsidiaries. Liens on the Company's vessels that secured the Credit Facility have been released. The Company maintained compliance with all covenants under the Credit Facility through the termination date and has paid all fees in full (See Note 13).

On August 13, 2015, the Debtors filed voluntary petitions (the "Bankruptcy Petitions") for reorganization ("Chapter 11 Cases") under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court"). Through the Chapter 11 Cases, the Debtors implemented the Plan in accordance with the RSA that the Debtors entered into with the Steering Group Members. The Chapter 11 Cases were jointly administered under the caption In re: Hercules Offshore, Inc., et al (Case No. 15-11685). The Company's foreign subsidiaries and one U.S. domestic subsidiary ("Non-Filing Entities") were not party to the Bankruptcy filing. After the petition date, the Debtors operated their business as "debtors-in-possession" under the jurisdiction of the Court and in accordance with applicable provisions of the Bankruptcy Code and orders of the Court. Under the Chapter 11 Cases, which required Court approval, the Company's trade creditors and vendors were paid in full in the ordinary course of business, and all of the Company's contracts remained in effect in accordance with their terms preserving the rights of all parties. The Non-Filing Entities operated in the ordinary course of business.

The filing of the Chapter 11 Cases constituted an event of default with respect to the Company's Outstanding Notes. Pursuant to the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including most actions to collect indebtedness incurred prior to the filing of the Bankruptcy Petitions or to exercise control over the Debtors' property. Accordingly, although the Bankruptcy Petitions triggered defaults under the Outstanding Notes, creditors were generally stayed from taking action as a result of these defaults.

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On September 24, 2015, the Bankruptcy Court entered an order confirming the Plan (the "Confirmation Order") and such order became final on October 8, 2015. On November 6, 2015 (the "Effective Date") the Plan became effective pursuant to its terms and the Debtors emerged from Chapter 11.
On the Effective Date the following items related to the Plan occurred:
•The obligations of the Debtors with respect to the Predecessor Company Outstanding Notes were canceled.
•Hero equity interests in the Predecessor Company were canceled.
•The Successor Company issued 20.0 million shares of new common stock, par value $0.01 per share (the "New Common Stock") of which 96.9%, or 19.4 million shares, were distributed to the holders of the Outstanding Notes of the Predecessor Company and 3.1%, or 0.6 million shares, were distributed to equity holders of the Predecessor Company.
•The Successor Company also issued 5.0 million warrants, which were distributed to equity holders of the Predecessor Company, exercisable until the Expiration Date, to purchase up to an aggregate of 5.0 million shares of New Common Stock at an initial exercise price of $70.50 per share, subject to adjustment as provided in the Warrant Agreement. Warrants are exercisable on a cashless basis at the election of the warrant holder. All unexercised Warrants shall expire, and the rights of Initial Beneficial Holders of such Warrants to purchase New Common Stock shall terminate at the close of business on the first to occur of (i) November 8, 2021 or (ii) the date of completion of (A) any Affiliated Asset Sale or (B) a Change of Control (as defined in the warrant agreement). Warrant holders will not have any rights as stockholders until a holder of Warrants becomes a holder of record of shares of Common Stock issued upon settlement of Warrants. The number of shares of Common Stock for which a Warrant is exercisable, and the exercise price per share of such Warrant are subject to adjustment from time to time upon the occurrence of certain events, including the issuance of a dividend to all holders of Common Shares, the payment in respect to any tender offer or exchange offer by the Company for shares of Common Stock, or the occurrence of a Reorganization event defined in the Warrant Agreement as the occurrence of certain events constituting a Fundamental Equity Change (other than a Non-Affiliate Combination) or a reorganization, recapitalization, reclassification, consolidation, merger or similar event as a result of which the Common Stock would be converted into, changed into or exchanged for, stock, other securities, other property or assets (including Cash or any combination thereof), each holder of a Warrant will have the right to receive, upon exercise of a Warrant, an amount of securities, Cash or other property received in connection with such event with respect to or in exchange for the number of shares of Common Stock for which such Warrant is exercisable immediately prior to such event.
•The Successor Company entered into a Credit Agreement (See Note 13) that provides for a $450.0 million senior secured credit facility consisting entirely of term loans. The loans were issued with 3.0% original issue discount, and $200.0 million (the "Escrowed Amount") of the proceeds were placed into an escrow account to be used to finance the remaining installment payment on the Hercules Highlander and the expenses, costs and charges related to the construction and purchase of the Hercules Highlander. The remaining proceeds of the loans were to be used to consummate the Plan, fund fees and expenses in connection therewith, and to provide for working capital and other general corporate purposes of the Company and its subsidiaries. The Company's obligations under the Credit Agreement are guaranteed by substantially all of its domestic and foreign subsidiaries, and the obligations of the Company and the guarantors are secured by liens on substantially all of their respective assets, including their current and future vessels (including the Hercules Highlander when it is delivered), bank accounts, accounts receivable, and equity interests in subsidiaries. Loans under the Credit Agreement bear interest, at the Company's option, at either (i) the ABR (the highest of the prime rate, the federal funds rate plus 0.5%, the one-month LIBOR rate plus 1.0%, and 2.0%), plus an applicable margin of 8.50%, or (ii) the LIBOR rate plus an applicable margin of 9.50% per annum. The LIBOR rate includes a floor of 1.0%. In connection with entering into the Credit Agreement, the Company paid to the original commitment parties a put option premium equal to 2.0% of each such commitment party's commitment (one half of such fee was paid upon execution of the commitment letter, and the remaining half of such fee was paid on the Credit Agreement Closing Date), and the Company paid certain administrative and other fees to the Agent.

5. Fresh-Start Accounting

In connection with the Company’s emergence from Chapter 11, the Company applied the provisions of fresh-start accounting, pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 852, Reorganizations, ("ASC 852"), to its financial statements as (i) the holders of existing voting shares of the Predecessor Company received less than 50% of the voting shares of the emerging entity and (ii) the reorganization value of the Company's assets immediately prior to confirmation was less than the post-petition liabilities and allowed claims. The Company applied

fresh-start accounting as of November 6, 2015. Adopting fresh-start reporting results in a new reporting entity with no beginning retained earnings or deficit. The cancellation of all existing shares outstanding on the Effective Date and issuance of new shares of the reorganized entity caused a related change of control of the Company under ASC 852. Upon the application of fresh-start accounting, the Company allocated the reorganization value to its individual assets based on their estimated fair values. Reorganization value represents the fair value of the Successor Company's assets before considering liabilities.

Reorganization Value

In support of the Plan, the enterprise value of the Successor Company was estimated to be in the range of $535 million to $725 million. The Company estimated the enterprise value of the Successor Company to be $653.7 million .

To estimate reorganization value, the Company utilized the discounted cash flow method. The Company established an estimate of future cash flows for the period ranging from November 6, 2015 to December 31, 2022 and discounted the estimated future cash flows to present value. The expected cash flows for the period November 6, 2015 to December 31, 2022 were derived from earnings forecasts and assumptions regarding growth and margin projections, as applicable. A terminal value was included, calculated using the constant growth method, based on the cash flows of the final year of the forecast period.

The discount rate of 20.9% was estimated based on an after-tax weighted average cost of capital ("WACC") reflecting the rate of return that would be expected by a market participant. The WACC also takes into consideration a company specific risk premium reflecting the risk associated with the overall uncertainty of the financial projections used to estimate future cash flows.

The following table reconciles the enterprise value to the estimated fair value of Successor common stock as of the Effective Date:

(in thousands, except per share value)	
Enterprise value	$653,720
Plus: Cash and cash equivalents	361,850
Less: Fair value of debt	427,996
Less: Fair value of warrants	1,433
Fair value of Successor common stock	$586,141
Shares outstanding at November 6, 2015	19,989
Per share value	$29.32

The Company identified an embedded derivative related to a put option feature included in the Senior Secured Credit Facility, where, upon the occurrence of certain events of default and where the Company was not able to obtain a waiver from our lenders, the principal amount of the Company's debt could be accelerated and the Company would be required to pay an additional premium of all interest that would accrue until November 6, 2018, plus a 3% premium, discounted to present value. The accounting treatment of derivative financial instruments requires the Company to bifurcate and fair value the derivative as of the inception date of the Senior Secured Credit Facility and to fair value the derivative as of each subsequent reporting date.

Upon issuance of the Senior Secured Credit Facility on November 6, 2015, the Company received net proceeds of approximately $436.5 million, incurred debt issuance costs of approximately $11.0 million, and recognized a derivative financial instrument approximating $8.5 million. After these adjustments, the debt approximated $417.0 million.

In connection with fresh-start accounting, the debt was recorded at fair value of $428.0 million which was determined using an Income Approach, specifically the risk-neutral method. The difference between the $450.0 million face amount and the fair value recorded in fresh-start accounting is being amortized over 4.5 years, the current expected life of the debt.

The fair value of the warrants was estimated using a Black-Scholes pricing model with the following assumptions: stock price of $10.27; strike price of $70.50; expected volatility of 40%; expected dividend rate of 0.0%; risk free interest rate of 1.91%; expiration date of six years. The fair value of these warrants was estimated using Level 2

inputs.

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The following table reconciles the enterprise value to the estimated reorganization value as of the Effective Date:

(in thousands)	
Enterprise value	$653,720
Plus: Cash and cash equivalents	361,850
Plus: Fair value of non-debt liabilities	127,576
Reorganization value of Successor assets	$1,143,146

The fair value of non-debt liabilities represents total liabilities of the Successor Company on the Effective Date less long-term debt.

Consolidated Balance Sheet

The adjustments set forth in the following consolidated Balance Sheet reflect the effect of the consummation of the transactions contemplated by the Plan (reflected in the column "Reorganization Adjustments") as well as fair value adjustments as a result of the adoption of fresh-start accounting (reflected in the column "Fresh-Start Adjustments"). The explanatory notes highlight methods used to determine fair values or other amounts of the assets and liabilities as well as significant assumptions.

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

(in thousands)	Predecessor Company November 6, 2015	Reorganization Adjustments	Fresh-Start Adjustments	Successor Company November 6, 2015
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$133,706	$228,144 (1)	$—	$361,850
Accounts Receivable, Net	64,245	—	—	64,245
Prepaids	15,074	—	—	15,074
Other	4,489	—	—	4,489
	217,514	228,144	—	445,658
Property and Equipment, Net	1,514,798	—	(1,049,537) (12)	465,261
Restricted Cash	—	200,000 (2)	—	200,000
Other Assets, Net	7,675	(147) (3)	24,699 (13)	32,227
	$1,739,987	$427,997	$(1,024,838)	$1,143,146
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts Payable	$49,253	$—	$—	$49,253
Accrued Liabilities	55,762	2,643 (4)	—	58,405
Other Current Liabilities	13,081	—	(4,454) (14)	8,627
	118,096	2,643	(4,454)	116,285
Long-term Debt	—	416,998 (5)	10,998 (15)	427,996
Deferred Income Taxes	—	39,546 (6)	(39,546) (16)	—
Other Liabilities	15,062	8,503 (7)	(12,274) (17)	11,291
Liabilities Subject to Compromise	1,254,845	(1,254,845) (8)	—	—
Commitments and Contingencies				
Equity:				
Predecessor Common Stock, $0.01 Par Value; 300,000 Shares Authorized, 164,624 Shares Issued and 161,641 Shares Outstanding	1,646	(1,646) (9)	—	—
Predecessor Capital in Excess of Par Value	2,186,749	(2,186,749) (9)	—	—
Predecessor Treasury Stock, at Cost, 2,983 Shares	(56,943)	56,943 (9)	—	—
Successor Common Stock, $0.01 Par Value; 139,650 Shares Authorized, 20,000 Shares Issued and 19,989 Shares Outstanding	—	200 (10)	—	200
Successor Capital in Excess of Par Value	—	587,699 (10)	—	587,699
Successor Treasury Stock, at Cost, 11 Shares	—	(325) (10)	—	(325)
Retained Deficit	(1,779,468)	2,759,030 (11)	(979,562) (18)	—
	351,984	1,215,152	(979,562)	587,574
	$1,739,987	$427,997	$(1,024,838)	$1,143,146

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

Reorganization Adjustments

1. Reflects the net cash payments recorded as of the Effective Date from implementation of the Plan:

(in thousands)	
Sources:	
Net proceeds from Senior Secured Credit Facility*	$436,500
Total sources	436,500
Uses:	
Funding of escrow account	200,000
Debt issuance costs	8,356
Total uses	208,356
Net Sources	$228,144

*$450 million Senior Secured Credit Facility issued at a discount of 3%

2. Reflects the funding of $200 million to an escrow account to finance the remaining installment payment on the Hercules Highlander and the expenses, costs and charges related to the construction and purchase of the Hercules Highlander.
3. Reflects the reduction of tax attributes and corresponding change to the valuation allowance as a result of the Debtor's emergence from Chapter 11 bankruptcy proceedings (See Note 16).
4. Represents debt issuance costs related to the Senior Secured Credit Facility expected to be settled in cash.
5. Upon issuance of the Senior Secured Credit Facility, the Company received net proceeds of approximately $436.5 million, incurred debt issuance costs of approximately $11.0 million, and recognized a derivative financial instrument approximating $8.5 million.
6. Reflects the reduction of tax attributes and corresponding change to the valuation allowance as a result of the Debtor's emergence from Chapter 11 bankruptcy proceedings (See Note 16).
7. Reflects the recording of the embedded put option derivative.
8. Liabilities subject to compromise were settled as follows in accordance with the Plan:

(in thousands)	
8.75% Senior Notes, due July 2021	$400,000
7.5% Senior Notes, due October 2021	300,000
6.75% Senior Notes, due April 2022	300,000
10.25% Senior Notes, due April 2019	200,000
3.375% Convertible Senior Notes, due June 2038	7,565
7.375% Senior Notes, due April 2018	3,508
Accrued Interest	43,772
Liabilities subject to compromise of the Predecessor Company (LSTC)	1,254,845
Fair value of equity issued to holders of the Senior Notes of the Predecessor	(568,286)
Gain on settlement of liabilities subject to compromise (debt forgiveness)	$686,559

Refer to 10. below as explanation for the determination of fair value for equity issued to holders of the Senior Notes of the Predecessor.

9. Reflects the cancellation of Predecessor Company equity to retained earnings.
10. Reflects the issuance of 19.4 million shares of common stock at a per share price of $29.32 to the holders of the Senior Notes of the Predecessor and 0.6 million shares of common stock at a per share price of $29.32 to the stockholders of the Predecessor Company as well as the repurchase of eleven thousand shares into treasury at a per share price of $29.32. Additionally, this amount reflects the issuance of 5.0 million warrants valued at $0.29 to the stockholders of the Predecessor Company.

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

11. Reflects the cumulative impact of the reorganization adjustments discussed above:

(in thousands)	
Gain on settlement of liabilities subject to compromise	$686,559
Net gain on reorganization adjustments	686,559
Fair value of shares issued to stockholders	(18,180)
Fair value of shares purchased back to treasury	325
Fair value of warrants issued to stockholders	(1,433)
Cancellation of Predecessor Company equity	2,131,452
Tax impact on reorganization adjustments	(39,693)
Net impact to retained earnings (deficit)	$2,759,030

The net gain on reorganization adjustments has been included in Reorganization Items, Net in the Consolidated Statement of Operations.

Fresh-Start Adjustments

12. An adjustment of $1.0 billion was recorded to decrease the net book value of property and equipment to estimated fair value. Fair value was determined as follows:

•We utilized the income and cost approach for drilling rigs and marine equipment.The discounted cash flow method under the Income approach estimates the future cash flow that a business or asset is expected to generate. Future cash flow is converted to a present value equivalent using an estimated discount rate such as the cost of equity or the weighted average cost of capital ("WACC" or "discount rate"), based on the type of cash flows being discounted. The Cost approach considers the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments in value for physical deterioration, and functional and economic obsolescence. Physical deterioration is an adjustment made in the cost approach to reflect the real operating age of an asset with regard to wear and tear, decay and deterioration that is not prevented by maintenance. Functional obsolescence is the loss in value or usefulness of an asset caused by inefficiencies or inadequacies of the asset, as compared to a more efficient or less costly replacement asset with newer technology. Economic obsolescence is the loss in value or usefulness of an asset due to factors external to the asset, such as the economics of the industry, reduced demand, increased competition or similar factors.

•We utilized the market, sales comparison or trended cost approach for drilling machinery and equipment. This approach relies upon recent sales and offerings of similar assets to arrive at a probable selling price.

•For the land and building, included in Other below, we considered the market rents for the property and the subject property's specific characteristics as well as current market conditions and demand.

The following table summarizes the components of property and equipment, net as of November 6, 2015, and the fair value at November 6, 2015:

(in thousands)	Predecessor November 6, 2015	Successor November 6, 2015
Drilling rigs and marine equipment	$1,485,420	$447,571
Drilling machinery and equipment	17,365	12,609
Other	12,013	5,081
Total	$1,514,798	$465,261

For property and equipment owned at November 6, 2015, the depreciable lives were revised to reflect the remaining estimated useful lives (See Note 2).

13. The net adjustment of $24.7 million reflects the write-off of existing deferred drydock of $1.9 million, $0.1 million for the recording of a valuation allowance on the federal benefit of a foreign deferred tax asset and an adjustment of $26.5 million to record the fair value of intangibles, determined as follows:

a. Customer contract related intangibles of $25.3 million were valued using the income approach.

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

b. In addition, the Company recorded the fair value of other intangibles of $1.2 million related to the corporate office lease which was favorable relative to available market terms.

14. Represents the revaluation of liabilities related to a previous acquisition of $2.8 million as well as the revaluation of the current portion of deferred revenues to fair value as the Company has no related future performance obligations of $1.4 million and the revaluation of a tenant allowance of $0.3 million.
15. Represents the adjustment to record the Senior Secured Credit Facility at fair value.
16. Reflects the change from a deferred tax liability to a deferred tax asset associated with adjustments to fresh-start accounting and the corresponding change to the valuation allowance (See Note 16).
17. Represents the revaluation of deferred revenues to fair value as the Company has no related future performance obligations of $12.0 million and the revaluation of the long-term portion of a tenant allowance of $0.3 million.
18. Reflects the cumulative impact of fresh-start adjustments as discussed above.

(in thousands)	
Establishment of Successor intangibles	$26,478
Property and equipment fair value adjustment	(1,049,537)
Long-term debt fair value adjustment	(10,998)
Other assets and liabilities adjustment	14,802
Net loss on fresh-start adjustments	(1,019,255)
Tax impact on fresh-start adjustments	39,693
Net impact on retained earnings (deficit)	$(979,562)

The net loss on fresh-start adjustments has been included in Reorganization Items, Net in the Consolidated Statement of Operations.

6. Reorganization Items, Net

Reorganization items represent amounts incurred subsequent to the bankruptcy filing as a direct result of the filing of the Chapter 11 Cases and are comprised of the following:

(in thousands)	Successor Period from November 6, 2015 to December 31, 2015	Predecessor Period from January 1, 2015 to November 6, 2015
Professional Fees	$1,330	$12,819
Net Gain on Reorganization Adjustments	—	(686,559)
Net Loss on Fresh-Start Adjustments	—	1,019,255
Non-Cash Expense for Write-off of Debt Issuance Costs Related to Predecessor Senior Notes (a)	—	11,535
Reorganization Items, Net	$1,330	$357,050

(a) The carrying value of debt that was subject to compromise was adjusted to include the related unamortized debt issuance costs; this adjusted debt amount was compared to the probable amount of claim allowed, which resulted in a non-cash expense of $11.5 million during the quarter ended September 30, 2015.

For the periods November 6, 2015 to December 31, 2015 and January 1, 2015 to November 6, 2015, cash payments for reorganization items totaled $1.4 million and $3.9 million, respectively.

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7. Property and Equipment, Net

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

(in thousands)	Successor December 31, 2015	Predecessor December 31, 2014
Drilling rigs and marine equipment	$451,841	$2,098,651
Drilling machinery and equipment	12,937	42,317
Other	5,081	38,195
	469,859	2,179,163
Less accumulated depreciation	(4,362)	(604,414)
Total property and equipment, net	$465,497	$1,574,749

In connection with the application of fresh-start accounting as of November 6, 2015, Hercules recorded fair value adjustments and therefore eliminated accumulated depreciation as of that date (See Note 5).

Depreciation expense was $4.3 million, $124.4 million, $164.9 million and $155.0 million for the periods November 6, 2015 to December 31, 2015 and January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013, respectively, of which, $7.1 million related to discontinued operations for the year ended December 31, 2013 is included in Loss from Discontinued Operations, Net of Taxes on the Consolidated Statement of Operations.

8. Business Combinations and Asset Acquisitions

Predecessor

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

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

In connection with the Discovery Transaction, the Company settled certain pre-existing relationships including a receivable from Discovery, warrants to purchase 5 million Discovery shares (see Note 15), as well as deferred revenue in the amounts of $14.3 million, $3.5 million, and $5.6 million, respectively, at the Acquisition Date.

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

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

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

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

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

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

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

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

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

9. Dispositions and Discontinued Operations

From time to time the Company enters into agreements to sell assets. The following table provides information related to the sale of several of the Company's assets, excluding other miscellaneous asset sales that occur in the normal course of business, during the years ended December 31, 2015, 2014 and 2013:

Asset	Segment	Period of Sale	Predecessor Proceeds (in thousands)	Gain/(Loss)	
Period from January 1, 2015 to November 6, 2015:					
Hercules 85 (a)	Domestic Offshore	May 2015	$250	$(2,606	)
Hercules 153 (a)	Domestic Offshore	May 2015	250	(1,039	)
Hercules 203 (a)	Domestic Offshore	May 2015	250	(1,050	)
Hercules 206 (a)	Domestic Offshore	May 2015	250	(1,039	)
Hercules 207 (a)	Domestic Offshore	June 2015	1,750	(43	)
Hercules 211 (a)	Domestic Offshore	June 2015	1,750	292	
			$4,500	$(5,485	)
2014:					
Hercules 258 (a)	International Offshore	April 2014	$12,000	$10,526	
Hercules 2002 (a)	Domestic Offshore	April 2014	1,750	470	
Hercules 250 (a)	Domestic Offshore	June 2014	8,450	6,883	
Hercules 2003 (a)	Domestic Offshore	August 2014	1,750	500	
Hercules 2500 (a)	Domestic Offshore	August 2014	6,000	4,680	
Hercules 156 (a)	International Offshore	September 2014	3,100	(439	)
			$33,050	$22,620	
2013:					
Various (b) (c)	Domestic Liftboats	July 2013	$54,447	$—	
Various (b) (d)	Inland	July 2013	44,331	—	
Hercules 27 (b)	Inland	August 2013	5,149	4,834	
Hercules 170 (a)	International Offshore	December 2013	8,300	(11,498	)
			$112,227	$(6,664	)

(a) These gains (losses) are included in Operating Expenses on the Consolidated Statements of Operations.
(b) These gains (losses) have been reflected in the Consolidated Statements of Operations as discontinued operations.
(c) The Company completed the sale of its U.S. Gulf of Mexico liftboats and related assets.
(d) The Company completed the sale of eleven inland barge rigs and related assets.

Discontinued Operations

In 2013, the Company sold its U.S. Gulf of Mexico liftboats and related assets and additionally sold twelve of its inland barge rigs and related assets, comprising the majority of the Inland segment fleet. These long-lived assets, excluding the Hercules 27, were written down to their fair value less estimated cost to sell, resulting in non-cash impairment charges (See Note 15).

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

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

Operating results included in discontinued operations were as follows:

(in thousands)	Predecessor Year Ended December 31, 2013
Inland:	
Revenue	$15,782
Loss Before Income Taxes	$(39,585)
Income Tax Benefit	2,587
Loss from Discontinued Operations, Net of Taxes	$(36,998)
Domestic Liftboats:	
Revenue	$29,625
Loss Before Income Taxes	$(4,310)
Income Tax Provision	—
Loss from Discontinued Operations, Net of Taxes	$(4,310)
Total:	
Revenue	$45,407
Loss Before Income Taxes	$(43,895)
Income Tax Benefit	2,587
Loss from Discontinued Operations, Net of Taxes	$(41,308)

10. Long-Term Incentive Awards

Predecessor

Stock-based Compensation

The Company’s 2014 Long-Term Incentive Plan (the “2014 Plan”), provided for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, performance awards and other stock-based awards to selected employees and non-employee directors of the Company. The 2014 Plan and any shares that were available for grant or award under such were canceled on the Effective Date pursuant to the Plan. The Company's 2004 Amended and Restated Long-Term Incentive Plan (the "2004 Plan") remained in effect after the approval of the 2014 Plan only as it related to outstanding awards previously granted under such 2004 Plan, but was canceled on the Effective Date pursuant to the Plan. The Compensation Committee of the Company’s Board of Directors selected participants from time to time and, subject to the terms and conditions of the 2014 Plan, determined all terms and conditions of awards. The Company issued originally issued shares upon exercise of stock options and for restricted stock grants. On the Effective Date, all share-based awards requiring share settlement that were granted under the Predecessor were canceled pursuant to the Plan. Certain award agreements requiring cash settlement contained change of control provisions which provided for vesting. The amount of liability for predecessor liability-based awards requiring cash settlement was $4.1 million and $2.0 million at November 6, 2015 and December 31, 2015, respectively. Cash payment related to these liability-based awards during the period November 6, 2015 to December 31, 2015 was $2.1 million.

The Company had the following equity award grants:

- Time-based awards The Company granted time-based restricted stock awards to its employees which vest 1/3 per year and previously to Directors which vested on the date of the Company's annual meeting of stockholders that followed the grant date. The grant-date fair value per share for these time-based restricted stock awards was equal to the closing price of the Company's stock on the grant date. Additionally, the Company previously granted stock options which vested 1/3 per year and had a maximum contractual term of 10 years.
- Objective-based awards The Company granted compensation awards to its employees that were based on the Company's achievement of certain Company-based performance objectives as well as the Company's achievement of certain market-based objectives. The awards granted in 2015 were to cliff vest three years from the date of grant and were payable in cash, subject to vesting requirements, after the completion of all performance periods with 20% of the

award being achievable based on a one-year performance period, 30% being achievable based on a two-year performance period, and the remaining 50% being achievable based upon a three-year performance period. The CEO's

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award also contains an equity component that is earned, in addition to the cash, up to a total amount of 400,000 shares if minimum levels of performance were achieved. The awards granted in 2014 and 2013, which were to cliff vest on the third anniversary of the grant date, are payable in shares at target levels when combined and in cash for the amount above target up to maximum, as defined by the agreements. For the Chief Executive Officer ("CEO"), the portion of these awards payable in cash was based on the achievement of certain market-based and Company-based performance objectives being met at certain levels below target when combined. Additionally, for the awards granted in 2014, if either the market-based or Company-based performance objectives were met at threshold or above, but the other was not, the CEO was entitled to a cash award for that objective if it was met at target or above. For 2012, a portion of the awards were payable in shares of the Company's common stock which vest 1/3 per year. For 2012, if the highest market-based and Company-based performance objectives were met, a portion of these awards were payable in cash and cliff vested at the first anniversary of the grant date. In addition, the Company granted certain awards to its CEO in 2011 that were based upon the Company's achievement of certain market-based objectives and were paid in cash at the end of the vesting periods at March 31, 2014 and December 31, 2013 ("Performance Retention Awards"). Additionally, a retention award, granted in 2011, outside of the 2004 Plan was paid in cash at December 31, 2013, the end of a three-year vesting period.

The Company recognized a $4.0 million expense, a $0.4 million benefit and a $3.4 million expense for employee compensation during the period January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013, respectively, for all liability-based awards. The expense for the period January 1, 2015 to November 6, 2015 includes $3.7 million of expense related to change of control provisions. For these awards, there was no related income tax benefit in the period January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013, respectively. The Company recognized $6.9 million, $8.3 million and $10.0 million in employee stock-based compensation expense for all share-settled awards during the period January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013, respectively. The expense for the period January 1, 2015 to November 6, 2015 includes $4.4 million of expense related to the cancellation of awards pursuant to the Plan, which under ASC 718 requires that any unrecognized cost on the cancellation date be recognized. For these awards, there was no related income tax benefit in the period January 1, 2015 to November 6, 2015 and the years ended December 31, 2014 and 2013, respectively. The Company classified $0.4 million and $1.0 million in excess tax benefits as a financing cash inflow for the years ended December 31, 2014 and 2013, respectively. There were no excess tax benefits to classify as financing cash inflow for the period January 1, 2015 to November 6, 2015.

The Company used various assumptions to estimate the fair value of its objective-based awards. The risk-free interest rate assumptions were based on observed interest rates consistent with the approximate vesting periods. For the Performance Retention Awards in 2013, the Company used the historical volatility of its common stock to estimate volatility and the dividend yield assumption was based on the historical and anticipated dividend payouts of the Company. For the 2015, 2014 and 2013 objective-based awards, the Company used the historical volatility of its common stock, as well as that of certain peer groups, as defined in the award agreements to estimate volatility and the dividend yield assumptions were based on historical and anticipated dividend payouts of the Company, as well as that of certain peer groups, as defined in the award agreements.

Objective-based Awards (cash settled)

The Company accounts for awards or the portion of the awards requiring cash settlement under stock-compensation principles of accounting as liability instruments. The fair value of all liability instruments are being remeasured based on the awards' estimated fair value at the end of each reporting period and are being recorded to expense over the vesting period. The awards that are based on the Company's achievement of market-based objectives related to its stock price performance as compared to certain peer groups, as defined in the award agreements, are valued using a Monte Carlo simulation. The following are the assumptions for the Company:

	December 31, 2014	December 31, 2013

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

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

Stock Option Awards

The following table summarizes stock option activity as of November 6, 2015 and changes during the period then ended:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
				(in thousands)
Outstanding at January 1, 2015	3,005,480	$8.91	3.87	$—
Granted	—	—		
Exercised	—	—		
Cancelled	(1,809,358)	7.50		
Expired	(1,196,122)	11.04		
Outstanding at November 6, 2015	—	—	0.00	—
Vested or Expected to Vest at November 6, 2015	—	—	0.00	—
Exercisable at November 6, 2015	—	—	0.00	—

The intrinsic value of stock options exercised during 2014 and 2013 was $0.2 million and $0.4 million, respectively. Cash received from stock option exercises was $0.1 million and $0.3 million during the years ended December 31, 2014 and 2013, respectively. There were no stock option exercises during the period January 1, 2015 through November 6, 2015.

Objective-based Awards (share settled)

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

	March 2, 2015	February 19, 2014	February 28, 2013
Dividend yield	—		