HERCULES OFFSHORE, INC.
Form PRE 14A
March 16, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

þ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Hercules Offshore, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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HERCULES OFFSHORE, INC.

9 Greenway Plaza, Suite 2200

Houston, Texas 77046

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 15, 2012

To the Stockholders

of Hercules Offshore, Inc.:

The annual meeting of stockholders of Hercules Offshore, Inc. will be held on May 15, 2012, at 8:00 a.m., local time, at the Renaissance Hotel, 6 Greenway Plaza East, Houston, Texas, for the following purposes:

1. To elect three directors to the class of directors whose term will expire at the 2015 Annual Meeting of Stockholders;

2. To conduct a non-binding advisory vote on the compensation of the Company s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K (the 2011 executive compensation);

3. To approve an amendment and restatement of the Certificate of Incorporation of Hercules Offshore, Inc., to permit the stockholders of the Company to request a special meeting in certain circumstances;

4. To approve an amendment of the Certificate of Incorporation of Hercules Offshore, Inc., to increase the number of authorized shares of common stock issuable by the Company from 200,000,000 shares to 300,000,000 shares.

5. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2012; and

6. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Attached to this notice is a proxy statement setting forth information with respect to the above items and certain other information.

The board of directors has fixed the close of business on March 19, 2012 as the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting or any adjournment or postponement thereof. Only holders of record of our common stock at the close of business on the record date are entitled to notice of and to vote at the meeting. For a period of ten (10) days prior to the meeting, a complete list of such stockholders will be available at our executive offices for inspection by stockholders during normal business hours for proper purposes.

Your vote is important. All stockholders are cordially invited to attend the meeting. ***We urge you, whether or not you plan to attend the meeting, to vote your shares electronically on the Internet, by telephone or by completing, signing, dating and mailing the enclosed proxy card in the postage-paid envelope provided.*** If a stockholder who has submitted a proxy attends the meeting in person, such stockholder may revoke the proxy and vote in person on all matters submitted at the meeting.

By Order of the Board of Directors

James W. Noe

Senior Vice President, General Counsel, *and Chief Compliance Officer*

Houston, Texas

March   , 2012

Proxy Statement for the

2012 Annual Meeting of Stockholders of

HERCULES OFFSHORE, INC.

To Be Held on May 15, 2012

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HERCULES OFFSHORE, INC.

9 Greenway Plaza, Suite 2200

Houston, Texas 77046

PROXY STATEMENT

For 2012 Annual Meeting of Stockholders

To Be Held on May 15, 2012

GENERAL

This proxy statement is furnished to stockholders of Hercules Offshore, Inc. in connection with the solicitation of proxies by our board of directors for use at the annual meeting of stockholders to be held on May 15, 2012, or at any adjournment or postponement thereof, at the time and place and for the purposes specified in the accompanying notice of annual meeting. The mailing of the Notice of Internet Availability of Proxy Materials to stockholders will commence on or about April 3, 2012.

Proxies and Voting Instructions

If you hold shares of our common stock in your name, you may vote your shares in a number of ways:

- electronically via the Internet at *www.proxyvote.com*,
- by telephone, if you are in the U.S. and Canada, by calling 1-800-690-6903, or
- by completing, signing and dating your proxy card and mailing it in the postage-paid envelope provided.

If you hold shares of our common stock through someone else, such as a bank, broker or other nominee, you will receive voting instructions from the organization holding your account. You will receive a Notice Regarding the Availability of Proxy Materials that will tell you how to access our proxy materials and vote your shares via the Internet. It also will tell you how to request a paper or e-mail copy of our proxy material.

You may revoke your proxy at any time prior to its exercise by:

- giving written notice of the revocation to our corporate secretary;
- appearing and voting in person at the annual meeting; or
- delivering a later-dated proxy card to our corporate secretary at the address above.

Your attendance at the annual meeting in person without voting will not automatically revoke your proxy. If you hold shares through someone else, such as a bank, broker or other nominee, and you desire to revoke your proxy, you should follow the instructions provided by your nominee.

Voting Procedures and Tabulation

We will appoint one or more inspectors of election to act at the annual meeting and to make a written report thereof. The inspectors will ascertain the number of shares outstanding and the voting power of each, determine the shares represented at the annual meeting and the validity of proxies and ballots, count all votes and ballots, and perform certain other duties. The determination of the inspectors as to the validity of proxies will be final and binding.

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All properly executed written proxies delivered pursuant to this solicitation, and not later revoked, will be voted at the annual meeting in accordance with the instructions given in the proxy. Stockholders should vote their shares on the enclosed proxy card. If no choice is indicated, proxies that are signed and returned will be voted FOR the election of all director nominees, FOR the approval, on an advisory basis, of 2011 executive compensation, FOR approval of the amendment and restatement of the Certificate of Incorporation to permit the stockholders of the Company to request a special meeting in certain circumstances, FOR approval of the amendment of the Certificate of Incorporation to increase the authorized number of shares of common stock of the Company, and FOR approval of the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2012, and in the discretion of the proxies as to all other matters properly brought before the meeting. All shares of our common stock represented by properly executed and unrevoked proxies will be voted if such proxies are received in time for the meeting.

The three nominees for director who receive the greatest number of votes cast at the meeting will be elected as directors. Cumulative voting is not permitted in the election of directors. Approval of our 2011 executive compensation and the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2012 are each subject to the approval of a majority of the shares of common stock voting on the matter. Approval of the amendment and restatement of the Certificate of Incorporation to permit the stockholders of the Company to request a special meeting in certain circumstances requires the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of capital stock generally entitled to vote in the election of our directors. Approval of the amendment of the Certificate of Incorporation to increase the authorized number of shares of common stock of the Company requires the affirmative vote of the holders of at least a majority of the shares of common stock entitled to vote on this matter.

Broker non-votes are proxies submitted by brokers that do not indicate a vote for a proposal because they do not have discretionary voting authority and have not received instructions as to how to vote on the proposal. Abstentions and broker non-votes are counted as present in determining whether the quorum requirement for the annual meeting is satisfied. For purposes of determining the outcome of any matter to be voted upon as to which the holder has abstained or as to which the broker has physically indicated on the proxy that the broker does not have discretionary authority to vote, these shares will be treated as not voting with respect to that matter.

With regard to the election of directors, votes may be cast in favor of or withheld from each nominee. Votes that are withheld will be excluded entirely from the vote and will have no effect. With regard to the advisory vote on our 2011 executive compensation, the approval of the amendment and restatement of the Certificate of Incorporation of the Company to permit the stockholders of the Company to request a special meeting in certain circumstances, and the approval of the amendment of the Certificate of Incorporation of the Company to increase the authorized number of shares of common stock of the Company, votes may be cast in favor, against or abstain. Votes to abstain will be excluded entirely from the vote and will have no effect. Broker non-votes will be treated as set forth below in the section entitled Effect of Not Casting Your Vote.

With regard to the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2012, abstentions and broker non-votes will not affect the outcome of the voting on the proposal.

Effects of Not Casting Your Vote

If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of directors, approval of 2011 executive compensation, approval of the amendment and restatement of the Certificate of Incorporation to permit the stockholders of the Company to request a special meeting in certain circumstances, and approval of the amendment to the Certificate of Incorporation to increase the number of shares authorized (Items 1, 2, 3 and 4 of this Proxy Statement). Recent changes in regulation limit the ability of your bank or broker to vote your uninstructed shares on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote, no votes will be cast on your behalf except

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on discretionary matters. If you are a shareholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Annual Meeting.

VOTING SECURITIES

Our only outstanding voting securities are shares of our common stock. Only holders of record of our common stock at the close of business on March 19, 2012, the record date for the annual meeting, are entitled to notice of and to vote at the annual meeting. On the record date for the annual meeting, there were   shares outstanding and entitled to be voted at the annual meeting. A majority of such shares, present in person or represented by proxy, is necessary to constitute a quorum. Each share is entitled to one vote.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE STOCKHOLDERS MEETING TO BE HELD ON MAY 15, 2012

This proxy statement and our 2011 annual report to stockholders are available at the following address on the internet: *http://www.proxydocs.com/hero*. Pursuant to rules adopted by the Securities and Exchange Commission, or SEC, we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice Regarding the Availability of Proxy Materials to certain of our stockholders of record and beneficial owners (excluding those record and beneficial owners who have previously requested that they receive electronic or paper copies of our proxy materials). All stockholders will have the ability to access our proxy materials on the website referred to above and in the Notice Regarding the Availability of Proxy Materials. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

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ELECTION OF DIRECTORS

(Item 1 on Proxy Card)

Our certificate of incorporation provides for three classes of directors serving staggered three-year terms. There are three Class I directors whose terms expire at the 2012 annual meeting: Suzanne V. Baer, John T. Rynd and Steven A. Webster. The nominating and governance committee of our board of directors has approved, and our board has unanimously nominated, each of Ms. Baer, Mr. Rynd and Mr. Webster for reelection as directors of Hercules Offshore to serve until the 2015 annual meeting of stockholders or until his or her successor is elected and qualified. If any of the nominees becomes unavailable for any reason, which is not anticipated, the board of directors in its discretion may designate a substitute nominee. If you have filled out the accompanying proxy card in favor of the unavailable nominee, your vote will be cast for the substitute nominee designated by the board of directors.

The directors nominated for election this year will be elected by a plurality of the shares of our common stock present in person or represented by proxy at the annual meeting and entitled to vote. In other words, the three nominees for director who receive the greatest number of votes cast at the meeting will be elected as directors. All duly submitted and unrevoked proxies will be voted for the nominees selected by our board, except where authorization to do so has been withheld.

Board Recommendation

Our board recommends that stockholders vote FOR the election of its nominees for director.

Board of Directors

Information with respect to the directors nominated for election this year, and the directors whose terms do not expire at the 2012 annual meeting, is presented below.

Nominees for Election as Class I Directors (Term Expiring in 2015)

CURRENT CLASS I

Suzanne V. Baer, age 64, director since 2007	Ms. Baer served as a director of TODCO from May 2005 until TODCO s acquisition by Hercules Offshore in July 2007. Ms. Baer served as Executive Vice President and Chief Financial Officer of Energy Partners Ltd., an independent oil and natural gas exploration and production company focused on the shallow-to-moderate depth waters of the Gulf of Mexico, from April 2000 until her retirement in April 2005. From July 1998 until March 2000, Ms. Baer was Vice President and Treasurer of Burlington Resources Inc., an independent oil and natural gas exploration and production company, and, from October 1997 to July 1998, was Vice President and Assistant Treasurer of Burlington Resources Inc. Ms. Baer also serves as a director and chairman of the audit committee and member of the pension committee of Lufkin Industries, Inc. As noted above, Ms. Baer previously served as a director of TODCO.

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John T. Rynd,

age 54, director since 2008

Mr. Rynd became Chief Executive Officer and President of Hercules Offshore in June 2008 and was appointed by the Board as a director in June 2008. From July 2007 to June 2008, he was Executive Vice President and Chief Operating Officer of Hercules Offshore. From October 2005 to July 2007, he was Senior Vice President of Hercules Offshore and President of Hercules Drilling Company, LLC. Prior to joining Hercules Offshore, Mr. Rynd worked at Noble Drilling Services Inc., a wholly owned subsidiary of Noble Corporation, a contract drilling company, as Vice President Investor Relations from October 2000 to September 2005 and as Vice President Marketing and Contracts from September 1994 to September 2000. From June 1990 to September 1994, Mr. Rynd worked for Chiles Offshore Corporation, a contract drilling company, in various positions, including as Vice President Marketing. Mr. Rynd is also a director and member of the compensation committee of Hornbeck Offshore Services, Inc.

Steven A. Webster,

age 60, director since 2005

Mr. Webster has been Co-Managing Partner of Avista Capital Partners LP, a partnership which he co-founded that focuses on private equity investments in energy, media, healthcare and other industries, since June 2005. From 2000 to June 2005, he served as Chairman of Global Energy Partners, an affiliate of Credit Suisse s private equity business. From 1998 to 1999, he served as President and Chief Executive Officer of R&B Falcon Corporation, a marine contract drilling company. From 1988 to 1997, Mr. Webster was Chairman and Chief Executive Officer of Falcon Drilling Company Inc., a company he founded. Mr. Webster has been a financial intermediary since 1979 and an active investor since 1984 in the energy sector. He serves as Chairman of Carrizo Oil & Gas, Inc. and Basic Energy Services, Inc. He is also a trust manager and member of the compensation committee and corporate governance committee of Camden Property Trust and a director of Geokinetics Inc. Mr. Webster also serves as a director and chairman of the nominating and corporate governance committee of SEACOR Holdings Inc.

Mr. Webster previously served as a director of Brigham Exploration from 2000-2007, Goodrich Petroleum from 2003-2007, Encore Bancshares from 2000-2009, Solitario Royalty & Exploration from 2006-2009, Grey Wolf Inc. from 1996-2008, Pinnacle Gas Resources, Inc. from 2003-2009, Crown Resource Corporation from 2001-2006, and Seabulk International from 2002-2006.

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Directors Not Standing for Election

CLASS II DIRECTORS (TERM EXPIRING IN 2013)

Thomas R. Bates, Jr., age 62, director since 2004	Mr. Bates has served as a director of Hercules since 2004 and has served as Chairman of our Board of Directors since 2009. Mr. Bates has been a Senior Advisor at Lime Rock Management LP, an energy-focused private equity firm, since January 2010. From October 2001 until December 2009, Mr. Bates was a Managing Director at Lime Rock Management LP. From February 2000 through September 2001, Mr. Bates was a business consultant. From June 1998 through January 2000, Mr. Bates was President of the Discovery Group of Baker Hughes Incorporated, an oilfield services company. From June 1997 to May 1998, he was President and Chief Executive Officer of Weatherford Enterra, Inc., an oilfield services company. From March 1992 to May 1997, Mr. Bates was President of Anadrill at Schlumberger Limited, an oilfield services company. Mr. Bates was Vice President of Sedco Forex at Schlumberger from February 1986 to March 1992. Mr. Bates has served as a director of Tetra Technologies, Inc. since November 2011. Mr. Bates has been an Adjunct Professor in the Management Department of the Neeley School of Business at Texas Christian University since January 2011. Mr. Bates previously served as a director of NATCO Group, Inc. from 2003-2009, as a director of T-3 Energy Services, Inc. from 2007 until it was acquired in January 2011, and as a director of Reservoir Exploration Technology ASA from December 2008 until February 2011.
Thomas M Hamilton, age 68, director since 2007	Mr. Hamilton served as a director of TODCO from May 2004 until TODCO s acquisition by Hercules Offshore in July 2007. He served as the Chairman, President and Chief Executive Officer of EEX Corporation from January 1997 until his retirement in November 2002. From 1992 to 1997, Mr. Hamilton served as Executive Vice President of Pennzoil Company and as President of Pennzoil Exploration and Production Company. Mr. Hamilton was a director of BP Exploration, where he served as Chief Executive Officer of the Frontier and International Operating Company of BP Exploration from 1989 to 1991 and as the General Manager for East Asia/Australia/Latin America from 1988 to 1989. From 1985 to 1988, he held the position of Senior Vice President of Exploration at Standard Oil Company, prior to its being merged into BP. Mr. Hamilton is also

	a director and member of the audit and compensation committees of FMC Technologies Inc., Non-Executive Chairman of Methanex Corporation, and a director, member of the compensation committee and chairman of the nominating and governance committee of HCC Insurance Holdings Inc. Mr. Hamilton previously served as a director of TODCO from 2004-2007 and of Western Gas Resources from January 2006 until it was acquired in August 2006.
Thierry Pilenko, age 54, director since 2006	Mr. Pilenko has been Chairman and Chief Executive Officer of Technip, a provider of engineering, technologies and construction services for the oil, gas and petrochemical industries, since April 2007. From March 2004 to January 2007, Mr. Pilenko was Chairman and Chief Executive Officer of Veritas DGC Inc. From 2001 to March 2004, Mr. Pilenko served as managing director of SchlumbergerSema, a Schlumberger Ltd. company located in Paris. From 1998 to 2001, he was president of Geoquest, another Schlumberger Ltd. company located in Houston, Texas. Mr. Pilenko was employed by Schlumberger Ltd. and its affiliated companies in various parts of the world, beginning in 1984, in a variety of progressively more responsible operating positions. Mr. Pilenko previously served as a director of Veritas DGC from 2004-2007 and of CGG Veritas from 2007-2010.

CLASS III DIRECTORS (TERM EXPIRING IN 2014)

Thomas N. Amonett, age 68, director since 2007	Mr. Amonett served as a director of TODCO from May 2004 until TODCO s acquisition by Hercules Offshore in July 2007. He was appointed lead independent director of TODCO in October 2004 and was appointed Chairman of TODCO in February 2005. He has been President and Chief Executive Officer of Champion Technologies, Inc., a manufacturer and distributor of specialty chemicals and related services, since 1999. From November 1998 to June 1999, he was President, Chief Executive Officer and a director of American Residential Services, Inc., a company providing equipment and services relating to residential heating, ventilating, air-conditioning, plumbing, electrical and indoor air quality systems and appliances. From July 1996 until June 1997, Mr. Amonett was Interim President and Chief Executive Officer of Weatherford Enterra, Inc., an oilfield services and manufacturing company. Mr. Amonett also serves as a director and member of

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the audit committee and chairman of the nominating and governance committee of Orion Marine Group, Inc., a marine contractor, and a director and member of the executive compensation committee and the audit committee of Bristow Group Inc., a global provider of helicopter services.

As noted above, Mr. Amonett previously served as a director of TODCO.

Thomas J. Madonna,

age 65, director since 2005

Mr. Madonna was Chief Financial Officer of Menil Foundation, Inc., a major art museum, from July 2007 to December 2011. From November 2002 until July 2007, he served as the Manager of Finance of Menil Foundation, Inc. From 1969 until December 2001, Mr. Madonna worked at PricewaterhouseCoopers LLP in a number of roles, including as Assurance Partner from 1982 until his retirement in 2001.

F. Gardner Parker,

age 70, director since 2005

From 1970 until 1984, Mr. Parker worked at Ernst & Ernst (now Ernst & Young LLP), an accounting firm, and was a partner at that firm from 1978 until 1984. Mr. Parker served as Managing Outside Trust Manager with Camden Property Trust, a real estate investment trust, from 1998-2005 and still serves as Managing Outside Trust Manager of Camden Property Trust. He serves as a director and Chairman of the Board of Sharps Compliance Corp., as a director, Chairman of the Board, and member of the compensation committee and audit committee of Triangle Petroleum Corporation, and as a director and chairman of the audit committee and compensation committee of Carrizo Oil & Gas, Inc.

Mr. Parker previously served as a director of Blue Dolphin Energy Company from 2004-2007 and Pinnacle Gas Resources, Inc. from 2003 to 2011.

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ADDITIONAL INFORMATION REGARDING THE BOARD OF DIRECTORS

Board Independence

It is the policy of our board of directors that a substantial majority of the members of our board qualify as independent directors in accordance with the qualification requirements of the NASDAQ Global Select Market. It is also the policy of our board that all of the members of our audit committee, compensation committee, and nominating and governance committee qualify as independent directors in accordance with the qualification requirements of the NASDAQ Global Select Market, and that all of the members of the audit committee satisfy the criteria for independence under applicable provisions of the Securities Exchange Act of 1934 (the Exchange Act) and SEC rules. Our board has determined that all of our directors and nominees for director, except Mr. Rynd, who is employed by Hercules Offshore, satisfy the independence standards of the NASDAQ Global Select Market. Our board also has determined that each member of the audit committee qualifies as independent under Rule 10A-3 under the Exchange Act.

In determining that each such director is independent, the board considered that Hercules Offshore and its subsidiaries in the ordinary course of business sell services to, or purchase products and services from, companies in which some of the directors have a direct or indirect ownership interest, or are or have been employed as officers or serve as directors.

In determining Mr. Amonett s independence, our board considered Mr. Amonett s position as a director of Bristow Group, Inc. (Bristow). In 2011, Hercules Offshore purchased helicopter transportation services from Bristow.

In determining Mr. Webster s independence, our board considered Mr. Webster s position as a director of Peregrine Oil & Gas (Peregrine). In 2011, Hercules Offshore provided drilling services to Peregrine.

In determining Mr. Hamilton s independence, our board considered Mr. Hamilton s position as a director of HCC Insurance Holdings Inc. (HCC). In 2011, Hercules Offshore purchased director and officer liability insurance and rig package insurance from certain of HCC s subsidiaries.

In determining Mr. Bates independence, our board considered his position as principal and senior advisor of Lime Rock Management LP (Lime Rock). In 2011, Hercules purchased products and services from certain of Lime Rock s portfolio companies.

Hercules Offshore considers each of these business relationships to be at arms-length and in the ordinary course of business. The board determined that Messrs. Amonett, Webster, Hamilton and Bates do not have a material direct or material indirect interest in any of such business relationships.

Board Committees and Meetings

We have a standing audit committee, compensation committee, and nominating and governance committee of the board of directors. Each of these committees operates under a written charter that has been adopted by the respective committee and by our board. The charters are published under the Corporate Governance section of our website at *www.herculesoffshore.com*.

The current members of the committees, the number of meetings held by each committee in 2011, and a description of the functions performed by each committee are set forth below:

Audit Committee (7 meetings). The current members of the audit committee are Suzanne V. Baer, Thomas J. Madonna (chair) and F. Gardner Parker. Mr. Madonna was appointed as chairman of the committee in June 2010. The committee s purpose is to assist the board of directors in overseeing our accounting and financial reporting processes, the audits of our financial statements and our internal control over financial reporting. In addition, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm and for overseeing the Company s internal audit function. The

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board of directors has determined that each member of our audit committee qualifies as an audit committee financial expert, as such term is defined in SEC rules. The board of directors also has determined that each member of the audit committee qualifies as independent under Rule 10A-3 under the Exchange Act.

Compensation Committee (9 meetings). The current members of the compensation committee are Thomas M Hamilton (chair), F. Gardner Parker and Thierry Pilenko. The purposes of the committee are, among other things, to discharge the responsibilities of the board relating to the compensation of our chief executive officer and other executive officers, to administer our equity-based compensation plans and to review and approve our objectives and elements of executive compensation.

The compensation committee annually reviews the performance of our chief executive officer and makes compensation decisions regarding the chief executive officer based on that review. The chief executive officer annually reviews the performance of each of the other executive officers and, based on this review, makes recommendations to the committee with respect to their compensation. The recommendations, including with respect to salary adjustments, bonus percentages, equity awards and perquisites, are presented to the committee by our chief executive officer, and our vice president of human resources. The committee can exercise its discretion in determining adjustments to the recommended salary, bonus percentages, perquisites or equity awards to the executive officers. The committee approves the elements of compensation relevant to chief executive officer and executive officer compensation based on, among other information, advice from a compensation consultant, established corporate goals and objectives, company performance targets, personal performance objectives, and the compensation paid by the company s competitors.

In addition, the responsibilities of the compensation committee include, among other things:

- to consider and take action on the adoption of and changes to our incentive compensation plans, equity-based compensation plans and other benefit plans;
- to administer our compensation plans that it is assigned responsibility to administer;
- to review and recommend to the Board how frequently the Company should permit stockholders to have an advisory vote on executive compensation;
- to review the results of stockholder advisory votes on executive compensation and consider whether to make adjustments to the Company s executive compensation policies and practices;
- to review the compensation and benefits of nonemployee directors and to approve, or make recommendations to the board of directors with respect to, any changes in such compensation and benefits;
- to review and approve any equity-based plans and awards that are not subject to stockholder approval;
- to approve employment, severance, change-of-control and retention agreements, and amendments for executive officers;
- to make recommendations to the board of directors regarding the adoption or modification of any stock ownership guidelines applicable to executive officers and directors;
- to administer and provide oversight of our policy regarding the timing and pricing of equity-based compensation awards;

to monitor compensation programs for executive officers to align executive compensation and company performance;

to appraise the performance of, and to provide feedback to, the Chief Executive Officer; and

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to develop and make recommendations to the board regarding succession plans for our chief executive officer and to review, based on the recommendations of the chief executive officer, the succession plans for other key executive officers and members of management.

Nominating and Governance Committee (3 meetings). The current members of the nominating and governance committee are Thomas N. Amonett (chair), Thomas J. Madonna and Steven A. Webster. Mr. Amonett was appointed as chairman of the committee in June 2010. The purposes of the committee are, among other things, to identify and recommend individuals qualified to become board members consistent with criteria approved by the board, to assist the board in determining the composition of the board and its committees, to develop, implement and review our corporate governance guidelines, practices and procedures, to oversee the company s international anti-corruption, ethics and compliance programs, and to oversee a process to assess board and committee effectiveness.

In assessing the qualifications of prospective nominees to our board of directors, the nominating and governance committee considers factors it deems relevant, including each nominee s general understanding of marketing, finance, accounting, or other elements relevant to the success of a publicly traded company in the current business environment, understanding of our business on an operational level, integrity, education and professional background, willingness to devote time to the board of directors duties, past board and committee meeting attendance and performance, commitment to the Company s core values and independence under applicable standards. In addition, the committee evaluates each individual in the context of the board of directors as a whole, with the objective of recommending individuals that can best perpetuate the success of our business and represent stockholder interests through the exercise of sound business judgment using their diversity of experience in these various areas. The nominating and governance committee does not specifically consider diversity in regards to ethnicity, gender, race, or age in assessing the qualifications of director nominees nor does it have a policy regarding diversity of nominee candidates. However, as stated above, the committee does consider the diversity of professional experiences and background of nominees, both individually, and in the context of the whole board.

The nominating and governance committee will consider director candidates recommended by stockholders. If a stockholder wishes to recommend a director for nomination by the committee, the stockholder should submit the recommendation in writing to the Chair, Nominating and Governance Committee, in care of the Corporate Secretary, Hercules Offshore, Inc., 9 Greenway Plaza, Suite 2200, Houston, Texas 77046. In accordance with our Policy Regarding Director Recommendations by Stockholders, which can be found under the Corporate Governance section of our website at *www.herculesoffshore.com*, the recommendation should contain the following information:

- the name, age, business address and residence address of the nominee and the name and address of the stockholder making the nomination;
- the principal occupation or employment of the nominee;
- the number of shares of each class or series of our common stock beneficially owned by the nominee and the stockholder;
- the written consent of the nominee to have such nominee s name placed in nomination at the meeting and to serve if elected; and
- any other information the stockholder may deem relevant to the committee s evaluation.

Candidates recommended by stockholders are evaluated on the same basis as candidates recommended by the board of directors, executive officers, third-party search firms or other sources.

In 2011, our board of directors held eleven meetings. Each director attended at least 75% of the total number of meetings of the board of directors and of the committees of the board on which he or she served. Directors are expected to attend meetings of the board of directors and meetings of committees on which they serve and to spend as much time and meet as frequently as necessary to properly discharge their responsibilities. In addition, directors are expected to attend annual meetings of our stockholders. All of our directors who were serving as directors at our 2011 annual meeting of stockholders attended that meeting.

Compensation Committee Interlocks and Insider Participation. None of our executive officers have served as a member of a compensation committee (or if no committee performs that function, the board of directors) of any other entity that has an executive officer serving as a member of our board of directors.

Structure of the Board of Directors and Role in Risk Oversight

Board Leadership Structure

Our board is comprised of individuals who possess substantial experience in the oil and gas and oilfield services industries, as well as significant financial, management, capital markets and board experience. Our chairman is the presiding director at each of our board meetings.

Since our inception, the roles of our chief executive officer (who is also our president) and our chairman of the board have been separated, which we believe is the best governance model for Hercules at this time. Our chief executive officer is primarily responsible for managing our day-to-day operations and implementing our strategic initiatives. Our board chairman is an independent director who interfaces with our other board members to provide objective guidance on our strategy and performance, approves the agendas for all board meetings and sees that the objectives of the board are carried into effect by management.

Under this model, we believe that separating these positions enables our chief executive officer to concentrate his efforts on managing our operations and strengthening our business, while the chairman assures that our overall performance and strategy objectives are being met and that management has the support it needs from the board to carry out Hercules strategic initiatives. Especially in this challenging business environment, the separation of these roles has enabled our chairman and chief executive officer, respectively, to efficiently and effectively work toward achieving their respective strategic and operational objectives to the benefit of our shareholders.

Director Qualifications

Each of our directors possesses certain experience, qualifications, attributes and skills, as further described below, that led to our conclusion that he or she should serve as a member of our Board of Directors.

Mr. Bates was appointed chairman of the board in 2009. In connection with his appointment, Mr. Bates resigned from each of the committees on which he served to focus on his role as chairman. Mr. Bates has extensive management experience during his long career in the oilfield services industry, having served as President of the Discovery Group of Baker Hughes Inc., President and Chief Executive Officer of Weatherford Enterra, Inc., and as President of Anadrill at Schlumberger Limited, among other positions. Mr. Bates also lends significant investment and capital markets experience gained from his time as a managing director and senior advisor of Lime Rock Management LP. He also served as a director of two other public companies until the first quarter of 2011. We believe that Mr. Bates s vast and diverse professional experience provides great benefit to the board and to the company in his role as chairman.

Our committees are designed to leverage the relevant knowledge and expertise of our directors. The chairman of our audit committee, Mr. Madonna, has significant experience in both the public and private accounting sector, specializing in the international energy and oilfield industries. He worked for more than thirty years for a major accounting firm, including twenty years as a partner, and for nine years held senior finance positions with a Houston-based foundation. We believe Mr. Madonna s varied experience in both public and private sector accounting allows him to effectively oversee the audit process of the Company and facilitate the accomplishment of the audit committee s purposes.

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Ms. Baer, also a member of our audit committee, has spent her entire career in investor relations, finance and accounting positions, most recently serving as chief financial officer of an independent oil and gas company. Ms. Baer also has been a director and serves on the audit committee (including currently as chairperson) of another public company since August 2005.

The third member of our audit committee, Mr. Parker, also has significant experience in the public accounting sector, working for fifteen years (six as a partner) for a major accounting firm. In addition, he serves as chairman of the board of two public companies and on the audit committee of two public companies and until June 2010 served as the chairman of our audit committee. In addition, Mr. Parker is a 2011 National Association of Corporate Directors (NACD) Board Leadership Fellow. He has demonstrated his commitment to boardroom excellence by completing NACD s comprehensive program of study for experienced corporate directors, a rigorous suite of courses spanning leading practices for boards and committees. He supplements his skill sets through ongoing engagement with the director community and access to leading practices.

All three members of our audit committee have been designated by the Board and are qualified as financial experts.

Two members of our compensation committee have served or are currently serving as chief executive officer of a publicly traded company in industries related to ours. Mr. Hamilton, the chairman of our compensation committee, has extensive executive management experience in the energy industry, including serving as chief executive officer and president of an exploration and production company for almost six years. In addition, he currently serves as a director of three other public companies and on the compensation committee of two of these companies. We believe that Mr. Hamilton s leadership roles in these other organizations provide him with the background to oversee our compensation program and to use the compensation program to effectively motivate and incentivize our executive officers and other employees.

Mr. Pilenko has worked in executive management positions across the globe throughout his career. He has been the chairman and chief executive officer of two companies and currently serves in this role at Technip. Mr. Pilenko s international management experience provides our board and the compensation committee with important insight from a broader global perspective. Mr. Parker is the final member of our compensation committee and, as described above, has significant experience as a director and committee member of publicly traded companies.

Mr. Amonett, who was appointed as chair of our nominating and governance committee in June 2010, has served as chief executive officer of Champion Technologies, Inc. for the past twelve years. In addition, he was the chairman of TODCO for over two years prior to it being acquired by Hercules in 2007 and was the chief executive officer of Weatherford Enterra Inc. from 1996-1997. He also is a director of two other publicly traded companies, serving on the audit committee of both of these companies and on the compensation committee of one of these companies.

Mr. Webster has a long career in our industry, having founded and served as the chairman and chief executive officer of one of TODCO s predecessor entities. He also co-founded a private equity investment firm and serves as a director of four other public companies, including some in our industry. Mr. Webster s experience provides our board specific expertise about our drilling rigs and industry, as well as valuable insight into the capital markets.

The third member of our nominating and governance committee, Mr. Madonna, previously served as the chairman of the nominating and governance committee and has significant committee experience, as noted above.

As a whole, the structure of our board lends knowledge specific to our industry and to our assets, and is composed of directors that provide a wealth of experience both from a management and director, as well as a customer and an investor, perspective. In addition, our board members provide a balance of individual expertise

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in the financial, legal, operational, accounting and marketing functions. Our committees are structured to take advantage of the diverse individual experiences of their respective members in order to accomplish the purposes of each committee.

The nominating and governance committee reviewed the composition of the board and each of the committees at its meeting in the fourth quarter of 2011 and determined not to make any changes to the composition of any of the committees for 2012.

Board s Role in Risk Oversight

Our board, primarily through our committees, plays an important role in assessing and overseeing the various risks to which the company is exposed. On an annual basis, our chief compliance officer and deputy compliance officer make a comprehensive presentation to the nominating and governance committee regarding the governance and compliance risks that are impacting or that could potentially impact our business. Included in this presentation is an overview and analysis of our Foreign Corrupt Practices Act (FCPA) compliance program, a review of our insurance policies, and a discussion of enforcement trends relevant to our company. In addition to this annual update, our chief compliance officer and deputy compliance officer also provide updates on compliance matters relevant to the company during the executive session held at the end of each nominating and governance committee meeting, and our management also provides periodic updates throughout the year as issues arise. Furthermore, the nominating and governance committee evaluates the board leadership and overall composition of the board.

Our audit committee, with input from our internal audit group and our finance and accounting personnel, oversees our financial reporting and Sarbanes-Oxley compliance processes. Additionally, the committee monitors compliance in the human resources area through the internal audit group s activities. The committee also meets periodically with management to discuss our major financial risk exposures and the steps management has taken to monitor and control these exposures. In addition, our chief compliance officer and deputy compliance officer provide updates on compliance matters relevant to the audit committee during the executive session held at the end of each audit committee meeting.

Our compensation committee assesses risks associated with the company s compensation program. As discussed in Compensation Discussion and Analysis below, the compensation committee establishes and monitors our compensation program in order to incentivize and motivate our officers and employees, while taking into account potential risks associated with such compensation program.

Our board, with input from management, also assesses and oversees our operational risks. The board receives detailed reports on Health, Safety and Environmental (HSE) issues at each board meeting from senior operations and HSE managers. In addition, the board receives detailed reports on operational issues at each board meeting from senior operations personnel and receives and reviews detailed contract status and marketing reports at each board meeting from senior marketing personnel. We have a Vice President of Risk who reports directly to our General Counsel. These individuals manage and monitor our claims and litigation and provide periodic reports to the board. Included in these updates are annual presentations about our insurance packages and management s discussions with our underwriters. Given the dynamic nature of the insurance market in our industry, the board plays an active role in evaluating the adequacy of our insurance packages in managing our operational risks.

Our board also assesses transactional and capital structure risks. The board receives periodic updates from management on our capital structure and compliance with debt covenants. Additionally, the board considers the risks associated with merger and acquisition and capital markets transactions that are contemplated in the execution of the strategy of the company.

Each of the committees communicates directly with our management team to implement the company s risk management objectives. At the regularly scheduled committee meetings, management provides feedback on the

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achievement of these objectives and receives input from the respective committees regarding future actions. Management also keeps the full board apprised of any significant risks that the company is encountering or expects to encounter as such risks arise.

The committees report their respective assessments of risks to the full board of directors. We believe our board and committee structure, and the communication among the committees and between the board and our management team, allows the board to effectively oversee the management of our risks by our officers.

Corporate Governance

Corporate Governance Guidelines. The board of directors has established Corporate Governance Guidelines to assist the board in the exercise of its responsibilities under applicable law. The guidelines provide a framework for the governance of our company and the board, covering such matters as determining director independence; director orientation and continuing education; director responsibilities; director access to officers, management and advisors; annual evaluations of the board; and other corporate governance practices and principles. The guidelines are available on our website at *www.herculesoffshore.com* under the Corporate Governance section. In addition, the guidelines, as well as the charters of the audit committee, the compensation committee and the nominating and governance committee, and our Code of Business Conduct and Ethics, are available in print to any investor requesting a copy. Requests should be directed to our Investor Relations Department.

Code of Business Conduct and Ethics. All of our directors and employees must act ethically at all times and in accordance with the policies comprising our Code of Business Conduct and Ethics. The code is a reaffirmation that we expect all directors and employees to uphold our standards of honesty, integrity, ethical behavior and compliance with the law, and to avoid actual or apparent conflicts of interest between their personal and professional affairs. Directors and employees are obligated to promptly report any good faith concerns or problems or any actual or suspected violations of the code. The code sets forth the procedures for the confidential and anonymous reporting of a violation of the code. We prohibit any form of retaliation against any employee for reporting, in good faith, suspected violations of the code. The code also sets forth procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters, and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. In the event of any change or waiver, including an implicit waiver, of the code granted by us to one of our executive officers or directors, we will make disclosure of such waiver available on our website at *www.herculesoffshore.com*. The code is available on our website at *www.herculesoffshore.com*, as described above.

Policy Regarding the Granting of Equity-Based Compensation Awards. We make equity grants to our employees and directors in accordance with our Policy Regarding the Granting of Equity-Based Compensation Awards. This policy establishes guidelines and procedures for the granting of equity compensation, including the timing of making annual grants and the approval process for such grants. In addition, this policy requires that all equity-based compensation awards granted to our officers have a vesting period of at least one year. The policy is intended to ensure that we comply with applicable laws and regulations as well as leading governance practices with respect to the granting of equity compensation. The policy is available on our website at *www.herculesoffshore.com* under the Corporate Governance section.

Clawback Policy. In February 2009, our board adopted a clawback policy applicable to our executive officers and directors. The clawback policy provides that, in the event that an executive officer or director of ours, while employed by us, is found to have engaged in fraud or misconduct that resulted in a material restatement of our financial statements or caused us to violate in any material respect the United States securities laws and regulations or the FCPA, we shall have the right to (i) reimbursement of any bonus or retainer previously paid to such executive officer or director, (ii) forfeit or cancel any unvested equity compensation award and the reimbursement of the fair market value of any vested equity compensation award, and (iii) reimbursement of any gains or profits realized from the exercise of stock options or from any other disposition of securities attributable to an award of equity compensation, in each case awarded to, paid to or

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realized by the executive officer or director, or vested, within the two-year period prior to such restatement or violation. In addition, the board may terminate the employment of such executive officer or demand the resignation of such director and take any other lawful actions as it deems appropriate to enforce the executive officers and directors obligations to us.

Executive Sessions. The independent directors meet regularly in executive session without management participation before and, if necessary after, each regular non-telephonic board meeting. Currently, the director who presides at these meetings is the Chairman of the Board. If the Chairman ceases to be independent, then the presiding director will be chosen by a vote of the independent directors.

Communication with the Independent Directors. Stockholders and other interested parties may make their concerns known confidentially to the independent directors by submitting a communication in an envelope marked Confidential addressed to the Board of Directors, a specifically named independent director or the Independent Directors as a group, in care of our corporate secretary. All such communications will be conveyed, as applicable, to the full board of directors, the specified independent director or the independent directors as a group.

EXECUTIVE OFFICERS

We have presented below information about our executive officers as of March 15, 2012. Officers are appointed annually by the board of directors and serve until their successors are chosen or until their resignation or removal.

Name	Age	Position
John T. Rynd	54	Chief Executive Officer and President (1)
James W. Noe	39	Senior Vice President, General Counsel, and Chief Compliance Officer
Stephen M. Butz	40	Senior Vice President and Chief Financial Officer
Terrell L. Carr	57	Vice President, Worldwide Drilling Operations
Troy L. Carson	36	Chief Accounting Officer
Todd A. Pellegrin	46	Vice President, Worldwide Liftboat Operations
Claus E. Feyling	59	Vice President, International Business Development; President of Hercules International Holdings, Ltd.
Kimberly A. Riddle	46	Vice President, Human Resources

(1) For biographical information on Mr. Rynd, see Election of Directors Board of Directors beginning on page 3.

James W. Noe has served as Senior Vice President, General Counsel and Chief Compliance Officer since April 2007 (and as Secretary until February 2010) and was Chief Executive Officer and President of our Delta Towing division from December 2008 until it was sold in May 2011. From October 2005 to April 2007, Mr. Noe served as Vice President, General Counsel, Chief Compliance Officer and Secretary of Hercules Offshore. From July 2002 to October 2005, Mr. Noe was Corporate Counsel for BJ Services Company, a worldwide oilfield services company. He was in private legal practice from October 1997 to July 2002. Mr. Noe currently serves on the board of directors of Discovery Offshore S.A.

Stephen M. Butz was appointed Senior Vice President and Chief Financial Officer in May 2010, after serving as Vice President, Finance and Treasurer of Hercules Offshore since October 2006. He joined the company in February 2005 as the Director of Corporate Development. During 2004, Mr. Butz served as a consultant to Noble Corporation. From 1996-2004, he worked in the investment banking industry as an equity research analyst at

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Deutsche Bank and Jefferies & Company. Before joining Jefferies & Company, Mr. Butz held positions in corporate lending. Mr. Butz currently serves on the board of directors of Discovery Offshore S.A.

Terrell L. Carr joined Hercules Drilling Company, LLC as Vice President of Operations in January 2007. He is now Hercules Offshore s Vice President of Worldwide Drilling Operations and is responsible for Hercules Offshore s day-to-day drilling operations. From 2006 to January 2007, Mr. Carr served as Manager, Operations for the Asia Pacific Region of ENSCO International Incorporated and from 2001-2006, he served as a Rig Manager and Country Manager in various international locations for Ensco International Incorporated. Prior to joining ENSCO, from 1982 to 2001, Mr. Carr was employed by Reading & Bates Corporation (later R&B Falcon Corporation) in various key international operations and marketing roles.

Troy L. Carson was named Chief Accounting Officer in May 2010. He joined the Company in March 2007 as Vice President and Corporate Controller and was appointed Principal Accounting Officer in July 2008. Previously, Mr. Carson served in a variety of roles, including as the Assistant Corporate Controller, at Weatherford International Ltd., an international oilfield services company, from June 2002 to March 2007. In addition, he was a member of the Commercial Assurance Practice of Arthur Andersen LLP from 1997 to 2002.

Todd A. Pellegrin was appointed Vice President of Worldwide Liftboat Operations in December 2008. From June 2008 to December 2008, Mr. Pellegrin served as Vice President of International Liftboats. From July 2007 to June 2008, Mr. Pellegrin served as the Managing Director for the West Africa Region. Prior to this appointment, Mr. Pellegrin held the position of Managing Director of Hercules Offshore Nigeria from March 2006 to July 2007. Mr. Pellegrin was the Managing Director of Danos & Curole Nigeria, Ltd. from January 2004 to February 2006. From August 1998 to December 2003, he served in several capacities for Danos & Curole, including International Business Development Representative.

Claus E. Feyling was appointed Vice President International Business Development of Hercules Offshore in July 2007 upon the acquisition of TODCO, where he held the same position since April 2006. In December 2011, he was named President of Hercules International Holdings Ltd. Previously, he served as Director Business Development and Manager Marketing and Business Development for Pride International, Inc. from 2001-2005. Mr. Feyling was previously employed as Vice President Marketing and General Manager Asia Pacific for Marine Drilling, and held numerous rig operations management positions for Odfjell Drilling Asia.

Kimberly A. Riddle was named Vice President, Human Resources of Hercules Offshore in May 2011. She joined the Company in March 2008 as Compensation Manager. Prior to joining Hercules Offshore, Ms. Riddle served as a Human Capital Consultant at Deloitte Consulting and has over 20 years of experience in human resources, specializing in compensation management.

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SECURITY OWNERSHIP

The following table sets forth information as of March 12, 2012 with respect to the beneficial ownership of our common stock by (1) each stockholder who is known to us to be a beneficial owner of more than 5% of our common stock, (2) our directors and director nominees and the persons named in the Summary Compensation Table below, and (3) all current executive officers and directors as a group. To our knowledge, except as indicated in the footnotes to this table or as provided by applicable community property laws, the persons named in the table have sole investment and voting power with respect to the shares of common stock indicated.

Name and Address of Beneficial Owner(1)	Number of Shares(2)	Percent of Class
Dimensional Fund Advisors LP(3)	9,316,574	6.8%
John T. Rynd	1,431,623	1.0%
Stephen M. Butz	347,960	*
James W. Noe	547,710	*
Terrell L. Carr	477,575	*
Todd A. Pellegrin	157,957	*
Thomas N. Amonett	57,926	*
Suzanne V. Baer	49,771	*
Thomas R. Bates, Jr.	111,000	*
Thomas M Hamilton	55,734	*
Thomas J. Madonna	79,200	*
F. Garner Parker(4)	53,100	*
Thierry Pilenko	42,866	*
Steven A. Webster(5)	1,822,639	1.3%
All current executive officers and directors as a group (16 persons)	5,698,469	4.1%

* Less than 1% of issued and outstanding shares of our common stock.

(1) The address of each director and executive officer is 9 Greenway Plaza, Suite 2200, Houston, Texas 77046.

(2) The number of shares beneficially owned by the directors and executive officers includes shares that may be acquired within 60 days of March 12, 2012 by exercise of stock options is as follows: Mr. Rynd 790,000 shares; Mr. Butz 161,900 shares; Mr. Noe 335,250 shares; Mr. Carr 265,000 shares; Mr. Pellegrin 41,866 shares; Mr. Amonett 17,308 shares; Mr. Hamilton 17,308 shares; Ms. Baer 10,000 shares; Mr. Bates 0 shares; Mr. Madonna 10,000 shares; Mr. Parker 10,000 shares; Mr. Pilenko 10,000 shares; Mr. Webster 10,000 shares; and all current executive officers and directors as a group 1,919,701 shares.

(3) Based on a Schedule 13G filed February 14, 2012 with the SEC by Dimensional Fund Advisors LP, Dimensional Fund Advisors LP reported that it furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, neither Dimensional Fund Advisors LP or its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the securities of the Company that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Issuer held by the Funds. However, all securities reported in the Security Ownership Table are owned by the Funds. Dimensional disclaims beneficial

ownership of such securities. The address for this entity is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(4) Mr. Parker owns 7,000 shares indirectly through his wife

(5) Mr. Webster directly owns 1,144,125 shares of our common stock and is the beneficial owner of 588,767 shares of our common stock through Kestrel Capital, LP, over which Mr. Webster shares voting and investment power, 44,747 shares of our common stock as Trustee of the Steven A. Webster Defined Benefit Pension Plan, 5,000 shares of our common stock as Trustee of the Elizabeth Anne Webster Trust, and 40,000 shares of our common stock through San Felipe Resources Company, of which he and his wife are the general partners.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and beneficial owners of more than ten percent (10%) of any class of equity securities to file initial reports of ownership and reports of changes in ownership of our common stock with the SEC and, pursuant to rules promulgated under Section 16(a), such individuals are required to furnish us with copies of Section 16(a) reports they file. Based solely on a review of the copies of such reports furnished to us during the year ended December 31, 2011 and written representations from our officers and directors, all Section 16(a) reports applicable to our officers and directors and any beneficial owners of ten percent (10%) or more of a class of equity securities were filed on a timely basis.

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COMPENSATION DISCUSSION AND ANALYSIS

Hercules Offshore, Inc. Pays for Performance

Our executive compensation program aligns pay with performance. Specifically, 80.9% of our CEO s target direct compensation for Fiscal 2011 and 78.4% on average for our other named executive officers (NEOs) was tied to the achievement of corporate, divisional and individual performance objectives. The components of total target direct compensation for Fiscal 2011 were:

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Fiscal 2011 Executive Compensation Performance Scorecard

Fiscal 2011 Actual Performance		Fiscal 2011 Executive Compensation Results		

Annual HERO Performance Bonus

Corporate Division

1st 6 months Actual	2nd 6 months Actual
ü EBITDA Consolidated = $79.2	ü EBITDA Consolidated = $74.6
X Working Capital as % Rev = 16.1%	X Working Capital as % Rev = 17.0%
Full Year Goal Actual	
ü Safety TRIR Consolidated = 0.62	ü Personal Goals 100% (all)

Actual HERO Performance Bonus Payout:

NEO	% of Target	Amount
John Rynd	94%	$591,630
Stephen Butz	94%	$169,037
Jim Noe	94%	$190,167

Drilling Division

1st 6 months Actual	2nd 6 months Actual
ü EBITDA Consolidated = $79.2	ü EBITDA Consolidated = $74.6
X EBITDA Drilling = $66.5	ü EBITDA Drilling = $69.4
ü Maintenance Capex = $22.7	ü Maintenance Capex = $8.9
Full Year Goal Actual	
ü Safety TRIR = 0.88	ü Personal Goals 75%

Actual HERO Performance Bonus Payout:

NEO	% of Target	Amount
Terry Carr	95%	$156,241

Liftboat Division

1st 6 months Actual	2nd 6 months Actual
ü EBITDA Cons = $79.2	ü EBITDA Consolidated = $74.6
ü EBITDA Liftboat = $33.1	X EBITDA Liftboat = $29.5
ü Maintenance Capex = $11.4	ü Maintenance Capex = $11.7
Full Year Goal Actual	
ü Safety TRIR = 0.14	ü Personal Goals 100%

Actual HERO Performance Bonus Payout:

NEO	% of Target	Amount
Todd Pellegrin	79%	$98,593

Performance Equity Award

Consolidated Divisions

Full Year Goal Actual
ü EBITDA Consolidated = $153.8
ü Safety Consolidated TRIR = 0.62

Actual Restricted Shares Granted:

NEO	Amount
John Rynd	147,009
Stephen Butz	88,206
Jim Noe	88,206
Terry Carr	88,206
Todd Pellegrin	44,103

Performance Retention & Incentive Plan (expires March 2012)

Corporate Division

1st 6 months Actual	2nd 6 months Actual
ü EBITDA Consolidated = $79.2	ü EBITDA Consolidated = $74.6
X Working Capital as % Rev = 16.1%	X Working Capital as % Rev = 17.0%
Full Year Goal Actual	
ü Safety TRIR = 0.62	

Actual Performance & Incentive Plan Bonus Payout:

NEO	Amount
John Rynd	$878,450
Stephen Butz	$242,145
Jim Noe	$272,414

Drilling Division

1st 6 months Actual	2nd 6 months Actual
ü EBITDA Consolidated = $79.2	ü EBITDA Consolidated = $74.6
ü EBITDA Drilling = $66.5	ü EBITDA Drilling = $69.4
ü Maintenance Capex = $22.7	ü Maintenance Capex = $8.9
Full Year Goal Actual	
ü Safety TRIR = 0.88	

Actual Performance & Incentive Plan Bonus Payout:

NEO	Amount
Terry Carr	$359,316

Liftboat Division

1st 6 months Actual	2nd 6 months Actual
ü EBITDA Consolidated = $79.2	ü EBITDA Consolidated = $74.6
ü EBITDA Liftboat = $33.1	ü EBITDA Liftboat = $29.5

Actual Performance & Incentive Plan Bonus Payout:

NEO	Amount
Todd Pellegrin	$158,639

ü Maintenance Capex = $11.4 ü Maintenance Capex = $11.7

Full Year Goal Actual

ü Safety TRIR = 0.14

ü = met at least threshold
X = failed to meet threshold

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Fiscal 2011 Company Business Objectives and Performance

In 2011, we continued our strategic focus to be a preferred provider of services to the oil and gas industry by upholding our four pillars of strength by being:

- Incident Free;
- Environmentally Sound;
- Reliable; and
- Cost Effective

Our employees are the foundation supporting these pillars of strength. By executing against the strategic initiatives that support these pillars of strength, our Company has survived in a challenging economic environment and is well positioned for success in the future. Highlights of the Company s recent strategic initiatives include:

Strategic Initiatives:

- **Investment in two new high-specification jackup rigs**. In January 2011, the Company formed and acquired an eight percent ownership stake in Discovery Offshore S.A. Our investment, along with the additional capital raised by Discovery Offshore, was used to fund the down payments on two newbuild ultra high specification jackup drilling rigs. The Company also executed a construction management agreement and a services agreement with respect to each of the rigs. Since its initial investment, the Company has increased its stake in Discovery Offshore to approximately 28% through open market purchases.

- **Opportunistic, strategic acquisition of core business**. In April 2011, the Company purchased 20 jackup rigs and related assets, accounts receivable, accounts payable and certain contractual rights from Seahawk Drilling, Inc. After closing of the acquisition, utilization and average dayrates for the working Seahawk rigs was approximately 81% and $47,000 per day, respectively. Due to the improvement in market demand for jackup rigs in the U.S. Gulf of Mexico (GOM), utilization and average dayrates on the working Seahawk rigs improved to approximately 95% and $53,000 per day, respectively, during the fourth quarter of 2011. In addition, the Company has been able to divest seven cold stacked rigs and unused spare equipment acquired from Seahawk for over $30 million in cash through January 2012.

- **Formed leading shallow water drilling advocacy group**. Immediately in response to the issuance of the moratorium on shallow water drilling in the GOM in May 2010, we led an effort to organize the Shallow Water Energy Security Coalition (the SWESC) that consists of contractors and operators in our industry. The SWESC spearheaded the effort that led to the lifting of the shallow water drilling moratorium and continued throughout 2011 to educate policymakers, the media and the public on shallow water drilling, which has resulted in a steady improvement in the efficiency of the drilling permit approval process. James Noe, our Senior Vice President, General Counsel and Chief Compliance Officer, serves as the Executive Director of the SWESC. Mr. Noe has testified before Congress and continues the public outreach for the SWESC, regularly appearing in national media outlets.

- **Enhanced pay for performance**. Beginning in 2011, the Company s equity grants to named executive officers included a performance grant, which constituted 56% of the target level of the grant in 2011. The vesting of the performance grant was contingent upon the meeting of pre-established consolidated safety and EBITDA objectives at a weighting of 50% each. The performance grant is forfeited if the Company fails to achieve the performance objectives.

As a result of these strategic initiatives and operational discipline, the Company has been strengthened to drive shareholder return and sustain a competitive advantage.

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This Compensation Discussion and Analysis (CD&A) provides information about our compensation objectives and policies during fiscal year 2011 for the following individuals, who are referred to as the named executive officers (NEOs):

Executive	Position
John T. Rynd	Chief Executive and President
Stephen M. Butz	Senior Vice President and Chief Financial Officer
James W. Noe	Senior Vice President, General Counsel and Chief Compliance Officer
Terrell L. Carr	Vice President, Worldwide Drilling Operations
Todd A. Pellegrin	Vice President, Worldwide Liftboat Operations

Overview of Previous Year Performance and Compensation

While the global economic downturn that began late in 2008 continued to impact our industry generally, the impact of the Macondo well incident in the GOM in 2010 has had a prolonged and significant impact on our business and financial security. Immediately following the Macondo well incident, the federal agency responsible for issuing drilling permits was restructured and new regulations were imposed on all offshore drilling operations, which resulted in our customers experiencing significant delays in obtaining the necessary permits to operate in the GOM. The combined events caused a dramatic decrease in the number of drilling permits issued to our customers. For example, from 2005 through 2007, prior to the Macondo incident and the 2008 downtown, operators in the GOM were able to obtain an average of approximately 45 shallow water drilling permits per month; however, since the Macondo incident, the average number of shallow water drilling permits issued has fallen to approximately 15 per month. As a leading provider of shallow water drilling and marine services in the Gulf of Mexico, these events have significantly impacted our operations, causing our profitability and stock price to trail that of others in the broader oilfield services industry that are not as heavily focused in the GOM region.

In the challenging times created by the global economic crisis, the accompanying collapse in oil and gas prices, and the historic moratorium placed on offshore drilling in the wake of the Macondo incident, the Company has focused on the following objectives, which were fundamental to the survival of the Company and will be the foundation for the Company s growth in the coming years. The compensation program that we currently have in place is intended to reward our named executive officers for their roles in spearheading and achieving the noteworthy accomplishments described below:

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Rebuilding Shareholder Value Despite the challenges faced by the Company since 2008, the Company has been successful in accomplishing our operational successes and strategic initiatives discussed in this CD&A. As a result, the Company s stock price has risen from a low of $1.11 per share on March 9, 2009 to $4.98 per share on March 9, 2012 (see Chart 1).

Chart 1: Hercules Offshore, Inc. Historical Stock Price Performance

Source: Bloomberg

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Aggressive Cost Reduction Measures and Recalibrating the Balance Sheet As soon as the global economic meltdown became apparent, the Company took various proactive steps that not only avoided a default of the Company s credit facility but will serve as the basis for growth and success for the Company in the future. The accomplishments include the following:

- **Reduced operating costs**. The Company reduced consolidating operating expenses by nearly a third from 2008 to 2010 (see Chart 2).

Chart 2: Operating Expenses ($ in millions)

Source: Company filings

- **Reduced general and administrative costs**. The Company reduced general and administrative costs by approximately 30% from 2008 to 2010 (see Chart 3), which included a voluntary pay cut in 2009 from multiple named executive officers (which pay cut remained in place through 2011).

Chart 3: General and Administrative Expenses ($ in millions)

Source: Company filings

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Reduced Debt. From June 30, 2008 through December 31, 2011, the Company has reduced its total debt by approximately $318 million (see Chart 4), with an additional $17 million of debt paid off in January 2012. A portion of this debt reduction was made at levels that were substantially below par value.

Chart 4: Total Debt Balance ($ in millions)

Source: Company filings

Amended credit agreement to increase flexibility. In March 2011, the Company amended its credit agreement to allow for the Seahawk transaction, to increase its investment basket and to revise the financial covenants.

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Non-core assets sales. The Company has generated approximately $146 million from sales of non-core assets since 2008 (see Chart 5) to buyers who were required to scrap the rigs or convert the rigs for uses other than drilling operations. A majority of the assets sold were either retired rigs or rigs that would require significant capital investment to reactivate, and are therefore unlikely to provide positive economic returns to the shareholders over the foreseeable future.

Chart 5: Proceeds from Asset Sales ($ in millions)

Source: Company filings

Operational Successes As conditions have improved in the GOM, the Company has fully employed all of its marketed jackup rigs in the GOM on more favorable terms without compromising its safety performance.

Increased Utilization. The utilization of our marketed domestic jackup rigs has increased from 42% in the third quarter of 2009 to 86% in the fourth quarter of 2011 (see Chart 6).

Chart 6: Domestic Offshore Segment Utilization Rate

Source: Company filings

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Increased Dayrates. The leading edge dayrate, defined as the most recently contracted dayrate, on our 200   mat jackup rigs in the GOM has almost doubled over the past year, from the mid-$30,000 per day in December 2010 to the mid-$60,000 per day by January 2012 (see Chart 7).

Chart 7: Leading Edge Dayrate (200   mat jackup rig in GOM)

Source: Company filings

Improved safety performance. Achieved a greater than 10% improvement in Lost Time Incident Rate for the fourth consecutive year (see Chart 8).

Chart 8: Lost Time Incident Rate

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Despite these operational and strategic decisions that led our Company to success, the compensation paid in 2011 to the Company s named executive officers remains well below the median of that paid to its peers, as noted below:

Shareholder Advisory Vote on Executive Compensation and Shareholder Outreach

Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) requires the SEC to adopt rules requiring us to seek a non-binding advisory vote from our stockholders to approve the compensation awarded to our executive officers disclosed pursuant to Section 14A of the Exchange Act and Item 402 of Regulation S-K. At our annual meeting of stockholders on May 10, 2011, we requested that our stockholders submit advisory votes on various aspects of our 2010 compensation program. Our first advisory vote to approve the compensation packages of our then named executive officers was held at our annual meeting of stockholders on May 10, 2011. The voting results were as follows: 24,896,201 for votes; 35,870,743 against votes; 4,001,626 abstained votes; and 35,120,501 broker non-votes. After this advisory vote was taken we recognized that we needed to improve communication with shareholders on executive compensation issues.

In response to the negative say-on-pay vote, we initiated contact with and met with shareholder advisory groups and many of our largest shareholders to discuss the concerns that these entities had with our compensation program. As a result of these discussions, we have since taken various actions to better ensure that our named executive officers are indeed being compensated in a manner that is fair and appropriate not only to them, but to our stockholders. We have analyzed Mr. Rynd s compensation package with special attention, as we understand that our stockholders particularly need to see an alignment of our Chief Executive Officer s compensation with the growth and success of our company. We also examined each of our named executive officers individual employment agreements, and determined that amendments were appropriate at this time to delete certain items that were objectionable to various shareholders. Each of the actions we have taken during the 2011 and 2012 years is described in greater detail below within the discussion regarding the applicable compensation element, but include:

Terminated Poison Pill. The Company terminated its poison pill.

Adopted a no gross-up policy. The Company has adopted a policy that it will not enter into executive employment agreements that include 280G tax gross-up provisions.

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Amended existing employment agreements to eliminate gross-ups and provide for a definite term. In addition to the no gross-up policy , the Company has amended the executive employment agreements with each of its executive officers and removed the tax gross-up provisions. The Company also inserted a definitive term in each of the amended executive employment agreements.

Amended Long-Term Incentive Plan to eliminate share recycling. The Company amended the Hercules Offshore, Inc. 2004 Long-Term Incentive Plan (LTIP) to delete the provision which allows the Company to add back to the total shares issuable under its LTIP those shares which are forfeited or cancelled.

Amended certificate of incorporation and bylaws to allow stockholders to call special meeting. In order to allow greater stockholder access, the Company amended its certificate of incorporation and bylaws, subject to stockholder approval, to allow stockholders who hold in the aggregate at least 20% of the total outstanding shares of common stock of the Company to call a special meeting of stockholders.

Instituted minimum vesting requirements for all equity-based compensation awards. We amended our Policy Regarding the Granting of Equity-Based Compensation Awards in order to adopt a minimum vesting requirement for all awards that are granted to our executive officers pursuant to our LTIP.

Adopted an Anti-Hedging Policy. The Company adopted an anti-hedging policy that prohibits our employees, including our named executive officers, from engaging in hedging transactions using equity that has been granted to them under our LTIP.

In addition, we want our stockholders to fully understand our rationale for providing the compensation packages to our named executive officers that we currently do. We intend for this CD&A to provide a thorough picture of the precarious position the economy and the Macondo incident placed our company with respect to retaining skilled management. The discussion regarding our incentive and retention programs (both cash and equity-based plans) has been expanded to provide a more detailed discussion of why our executives compensation packages were structured as they were for the 2011 year, as well as the actions that we hope to take in the near future. Where appropriate we have included historical background and rationale within the CD&A, as many of our current programs are continuations or versions of arrangements that were put in place in prior years and under differing circumstances.

A second advisory vote mandated by Dodd-Frank required that our stockholders recommend the frequency that they should vote on the compensation packages of our named executive officers. Following the recommendation of our board of directors, a majority of our stockholders recommended that we hold such a vote on an annual basis. Our board of directors has determined to hold an annual advisory vote on executive compensation until the next advisory vote on the frequency of such a vote is required under the SEC s rules.

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Compensation Philosophy and Objectives

The Company s continued success depends on attracting, directing, motivating, and retaining top talent, including an exceptional senior management team that can lead a dynamic international company that operates in a cyclical industry. Our board of directors and its compensation committee (the committee) believes that executive compensation programs play an important role in achieving these goals. The committee has structured our executive compensation program to achieve the following key objectives:

Objective	*How Our Executive Compensation Program Achieves This Objective*
Attract and Retain Top Talent	Competing effectively for the highest quality people who will determine our long-term success Targeting total direct compensation comparable to companies with which we compete for executive talent
Pay For Performance	Align executive compensation with short-term and long-term company, division and individual performance Setting a significant portion of each named executive officer s target total direct compensation to be in the form of variable compensation Align the interests of our executive officers with those of our stockholders
Accountability	Ensure that performance-based compensation does not encourage excessive risk taking Increase retention by requiring forfeiture of a substantial portion of an executive officer s compensation upon voluntary termination of employment Provide limited executive perquisitesp Maintaining a clawback policy for incentive compensation awards

Our compensation program in general, and our 2011 program specifically, is responsive to the circumstances surrounding our Company and the industry since late 2008. Our focus since early 2009 has been to meet our compensation objective of retaining key employees during a particularly challenging time for the industry and our Company. The committee recognizes the value of our senior management team s skills and institutional knowledge and has designed performance-based retention awards and compensation to incentivize these officers to stay with our Company through this difficult period. We believe that performance should be analyzed on both a short-term and long-term basis. Our compensation program has effectively retained our executive officers and motivated them to develop and achieve short-term and long-term strategic objectives to position the Company for future success and growth. We believe that our compensation program as a whole, and in particular our retention programs (which substituted for our lack of ability to compensate our executives with equity, given the significantly depressed stock price), has been very effective, as these key officers have remained with our company through trying times and are committed to seeing our Company achieve long-term success.

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As our NEOs assume greater responsibility, our pay-for-performance approach provides that: (1) a larger portion of their total compensation should be at-risk in the form of short-term and long-term incentive awards; and (2) a larger portion of their incentive awards should be focused on long-term awards to drive sustainable stockholder value. The following chart illustrates the allocation of all fiscal 2011 total direct compensation components for each NEO. This chart highlights the Company s emphasis on long-term and at-risk compensation:

The committee, with the assistance of the human resources department, conducts a review of our compensation philosophy and objectives on at least an annual basis. No changes were made to our compensation philosophy between the 2010 and the 2011 fiscal years.

Snapshot of 2011 Compensation Elements

This CD&A provides a general description of our compensation program and specific information about its various components, which in 2011 consisted of the following:

Compensation Element	Objective	Key Features
Base Salary	Reward for level of responsibility, experience, and sustained individual performance.	Fixed cash component targeted at our peer group; Reviewed annually and based upon individual performance, leadership and accomplishment of individual performance goals.
Annual HERO Performance Bonus Plan	Reward contributions to the achievement of short-term Company performance objectives.	Compensation committee establishes performance measures that incentivize performance relevant to meeting the financial covenants in the Company s

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Compensation Element	Objective	Key Features
		credit agreement and ensuring the continuing viability and strength of the Company.
		Currently comprised of two six-month performance periods per year, but full-year bonus is paid after year end.
Cash Retention and Incentive Plan	Provided a two-year cash incentive to retain executives during a period of economic and industry turmoil and an uncertain time for the Company as it faced, at that time, potential violation of the financial covenants in the Company s credit agreement, which necessitated a restructuring of the Company s cost centers and amendments to the Company s credit agreement in order to avoid a default.	*Used the same metrics as those used under the Annual HERO Performance Bonus Plan, in order to further emphasize the importance of maintaining compliance with the covenants in the Company s credit agreement.*
		Plan expired and was not renewed after its final payout was made in March 2012.
	Offset the Company s inability to offer equity of sufficient value for retention.	
Long-Term Equity Awards *(stock options, restricted stock and performance-based restricted stock)*	Align the interests of executives with those of the stockholders by rewarding executives through stock price appreciation.	*Stock Options:*
		Exercise price is equal to the closing price on the date of grant.
	Incentivize executives to achieve important financial and operational objectives of the Company by rewarding executives through stock price appreciation.	Vest over a three-year period, one-third per year.
		Value is realized only if stock price appreciates after the date of grant.
		Unexercised and unvested options are forfeited if executive voluntarily terminates employment.
		Restricted Stock:

Executives receive restricted stock awards to provide long-term growth and align the performance of our executive officers with the interest of our shareholders.

Vest over a three-year period, one-third per year.

Unvested shares are forfeited if executive voluntarily terminates employment.

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Compensation Element	Objective	Key Features
		Performance-Based Restricted Stock: Executives receive shares of restricted stock only to the extent that safety and EBITDA objectives are achieved in the year of grant. Vest over a three-year period, one-third per year. Unvested shares are forfeited if executive voluntarily terminates employment.
Severance	Provide a measure of financial security in the event an executive s employment is terminated without cause. Encourage retention and ensure continued dedication by executive officers in the event of a change in control.	Severance benefits are provided pursuant to the executive officers employment agreements. These benefits include the following: *Terminations by the Company not for cause or by the executive for good reason:* Lump sum payment equal to the sum of the executive s base salary and annual bonus multiplied by 1.5 or 2.0 (this multiplier differs by executive) Lump sum payment equal to the then current cost of employer-provided welfare benefits provided to the executive and his dependents *Termination after a change of control:* Lump sum payment equal to the sum of the executive s base salary and target bonus multiplied by 2.0, 2.5, or 3.0 (this multiplier differs by executive) Lump sum payment equal to the then current cost of employer-provided welfare benefits provided to the

	executive and his dependents

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Compensation Element	Objective	Key Features
		Immediate vesting and exercisability of all equity awards These benefits are payable only upon a *double trigger event*, which occurs when there is a change of control ***and*** an involuntary or good reason termination.
Retirement Plan	Provide retirement savings in a tax efficient manner.	The Company has a 401(k) plan available to all employees. The Company makes matching contributions equal to the amount of each employee s contribution, up to a maximum of 3% of the employee s base salary.
Deferred Compensation Plan	Provide the executives with the ability to defer federal income taxation on a portion of their compensation.	Participating employees can defer up to 80% of their base salary and 100% of any annual bonus paid from the Annual HERO Performance Bonus Plan. Participants are also eligible for the Company restoration match of 3%.
Health and Welfare Benefits	Provide competitive health and welfare benefits.	The Company provides all employees and eligible dependents with medical, dental, vision, life and disability coverage.
Perquisites	Provide limited perquisites to facilitate executives successful achievement of their duties.	Perquisites provided to executives include financial planning assistance, an annual health physical, and certain executives are eligible for a club membership.

Significant 2011 and 2012 Compensation Actions and Decisions

Pay-for-Performance. Prior to the say-on-pay vote in 2011, the committee recognized that it wanted to make certain revisions in 2011, and accordingly further emphasized our pay-for-performance objectives for 2011. All equity-based and incentive awards in 2011 were granted at risk, or subject to forfeiture in the event that performance objectives are not met or the executive s employment is terminated for various reasons. Incentive plan performance metrics included EBITDA and safety objectives, which are crucial Company performance measures necessary to ensure continued compliance with the covenants within our credit agreement and to incentivize continued safe operations. We have determined that using the same performance objectives for our incentive awards that are necessary to our company s health and survival is the most effective means of incentivizing our named executive officers to focus on our long-term success. Until we have determined that our

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company and our industry has stabilized, the most important performance objectives for compensation purposes will be those that assist us in remaining compliant with our credit agreement. The Company intends to continue to emphasize pay-for-performance in its compensation programs in 2012 and in subsequent years.

Cash Retention Program. The committee also remains committed to retaining the existing management team and, as a result, has offered cash retention incentives to recover some of the shortfall in long-term incentive compensation levels. Irrespective of our continued financial and strategic improvements, the impact of the economic downturn and the Macondo well incident created significant challenges to retain the management team over the past three years. With our depressed stock price, certain prior year grants of equity-based awards have a current value of $0 (despite the grant-date fair value of the award for accounting purposes that may have been reported for a named executive officer during a previous year), and the company has been unable to offer competitive long-term grant levels, as doing so would significantly dilute our shareholders. In 2011, long-term grants were 67% below the median of our peers on average for the named executive officers; in 2010, long-term grants were 56% below the median of our peers on average; and in 2009, long-term incentive grant values were 87% below the median.

In addition to receiving long-term awards that are below the median of our peers, the majority of such awards will be deemed earned only if the company achieves specific performance goals during the year. Due to the lack of value of prior years equity grants, the committee adopted the Incentive and Retention Plan in 2010 to provide cash incentives to our named executive officers that are based on the achievement of company performance objectives and contingent upon continued employment. The Incentive and Retention Plan covered both the 2010 and 2011 fiscal years, but expired and was not renewed following the final payout in March 2012 of awards relating to the 2011 year. The committee believes that the implementation of this plan has been critical in deflecting efforts by competitors that can offer attractive compensation opportunities, and in keeping the management team focused on executing the business strategy for future shareholder value creation. As with our other incentive awards, we have designed certain financial metrics for the Incentive and Retention Plan to correspond with the performance measures required by our credit agreement.

Even when considering the potential payments due to our named executive officers under the Incentive and Retention Plan, 2011 target total direct compensation was still approximately 40% below the median overall for the named executive officers. It is important to note that the committee utilized this special cash incentive

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arrangement to retain management during a difficult time for the company, but we intend to continue to rely more heavily on performance-based equity awards in the 2012 fiscal year and other incentive methods that do not contain guaranteed retention payments.

For 2011, compensation for the named executive officers increased over 2010 levels primarily due to the achievement of our performance goals under our annual incentive plan and under the Incentive and Retention Plan. A discussion of our performance versus the goals in each plan is described in detail below.

Employment Agreement Amendments. In 2012, we made various amendments to the employment agreements of our named executive officers. Not only did we adopt a policy against the inclusion of any tax gross-up payments within any new agreements that we may enter into with our named executive officers, we amended existing employment agreements with each of the named executive officers to eliminate the potential gross-up provision that was contained in their agreements. A second significant amendment to the agreements was the modification of the term of each of the employment agreements to provide for a maximum number of years rather than allowing the agreements to automatically renew in perpetuity. We feel that these material changes, along with various other modifications that were made, bring the employment agreements into better alignment with good pay practices in our industry.

Equity Ownership Guidelines and Clawback Policy. Aside from those mentioned previously, other important aspects of the company s compensation program did not change in 2011, including an equity ownership requirement for officers and a clawback policy. The committee also continues to rely on the advice of independent consultants hired directly by the committee.

Executive Compensation Decision-Making Process

Compensation Committee

The board of directors delegates to the compensation committee responsibility for establishing the compensation of its executive officers, pursuant to a written charter adopted by the board and posted on the company s website at *www.herculesoffshore.com*. Each of the three members of the compensation committee meets the independence requirements contained in the NASDAQ Global Select Market listing standards.

The compensation committee is responsible for the oversight and administration of the company s base, annual incentive, long-term compensation and benefit programs for executive officers. The committee s key compensation responsibilities are:

- to monitor the elements of compensation relevant to the Chief Executive Officer and executive officers to determine whether such programs are properly achieving their intended purposes of aligning executive compensation and Company performance, and do not contain provisions or by their nature promote adverse risks or risk-taking that could be detrimental in their operation to the company or its shareholders;
- to establish corporate goals and objectives relevant to the incentive compensation of executive officers;
- to consider and take action on the adoption of and changes to our incentive compensation plans, equity-based compensation plans and other benefit plans;
- to administer our compensation plans that it is assigned responsibility to administer;
- to review and recommend to the Board how frequently the Company should permit stockholders to have an advisory vote on executive compensation;
- to review the results of stockholder advisory votes on executive compensation and consider whether to make adjustments to the Company s executive compensation policies and practices;

- to review and approve any equity-based plans and awards that are not subject to stockholder approval;

- to approve employment, severance, change-of-control and retention agreements, and amendments for executive officers;

- to make recommendations to the board of directors regarding the adoption or modification of any stock ownership guidelines applicable to executive officers and directors;

- to appraise the performance of, and to provide feedback to, the Chief Executive Officer; and

- to develop and make recommendations to the board regarding succession plans for our Chief Executive Officer and to review, based on the recommendations of the Chief Executive Officer, the succession plans for other key executive officers and members of management.

The committee believes that the application of its members and the compensation consultant s collective experiences and judgment is as important to excellence in compensation as the use of data. Market data is an important tool for analysis and decision-making; however, the committee exercises both positive and negative discretion based on the committee members experiences and judgment. The committee gives consideration to each officer s personal contributions to the organization, as well as his or her skill sets, qualifications and individual performance, and competitive conditions in determining compensation in an effort to retain highly qualified employees in key positions. The committee recognizes that certain executive officers may have a more expansive role in executing the management of our company compared to similarly situated executives in the peer group. The committee also seeks to reward the sense of urgency and the ingenuity that allows the officer to effectively resolve challenges and capitalize on opportunities to the benefit of our Company.

Role of Consultants

To assist it in structuring our compensation program in 2011, the committee engaged two separate consulting firms during the 2011 year. Frederic W. Cook & Co., Inc. (F.W. Cook) provided advisory services to the committee during the first seven months of the 2011 year. F. W. Cook is an independent executive compensation firm that provided the committee with market data and advice regarding executive compensation packages in our industry and with respect to our compensation program. Longnecker & Associates (Longnecker), an independent executive compensation consulting firm, was engaged in August 2011 to provide the committee with market data and advice regarding executive compensation packages in our industry and with respect to our compensation program and to conduct an annual review of our total compensation program for our key employees, including the named executive officers. Longnecker provided the committee with data and advice with respect to the Company s peer group and with relevant market data and alternatives to consider when making decisions with respect to the Chief Executive Officer s compensation and his recommendations with respect to the compensation of the other named executive officers. Longnecker s findings and recommendations have also been tailored to balance the external market data that is available with our internal environment, to ensure fiscal responsibility is a factor in our final decisions. Our management did not engage F.W. Cook or Longnecker in any other capacity for 2011 and does not direct or oversee the retention or activities of F.W. Cook or Longnecker with respect to our executive compensation program.

Role of Executive Officers

On an annual basis, our chief executive officer and president reviews the performance of each of the other named executive officers and, based on this review, makes recommendations to the committee with respect to the compensation of the named executive officers, other than himself. The chief executive officer and president also considers internal pay equity issues, individual performance and company performance in making his recommendations to the committee. Our chief executive officer and president also attends all board and committee meetings throughout the year. The vice president, human resources provides general administrative support for the committee, such as providing data and advice to the committee and overseeing the documentation of equity plans and awards as approved by the committee. The remaining named executive officers do not have a formal role in setting compensation for any member of the named executive officer group.

Use of Peer Group Data

In making compensation decisions, the committee compares each element of total compensation against a peer group of publicly traded offshore drilling and oilfield service companies. The committee periodically reviews and adjusts the composition of the peer group. During the fall of 2011, with Longnecker s assistance and input from senior management, the committee reviewed our peer group and made certain changes that are included in the current peer group composition. The committee and Longnecker noted that the company is uniquely positioned in our industry, in that it is the sole drilling contractor that operates exclusively in the shallow water and that it is particularly focused in the GOM. Despite these unique characteristics, the committee thought it appropriate to add other drilling contractors that also operate in the shallow water and operators of a similar size that have substantial operations in the GOM. Market data was taken from companies that operate in the oil and gas industry and included companies that had median revenues of approximately $1.12 billion, a median market cap of $2.63 billion and median enterprise values of $3.23 billion. The current peer group consists of companies against which the committee believes we compete for talent, business and stockholder investment. The companies that the committee selected to comprise our peer group were:

ATP Oil and Gas Corp.	Ensco PLC	Rowan Companies, Inc.
Atwood Oceanics Inc.	Gulfmark Offshore	Superior Energy Services, Inc.
Basic Energy Services	Helmerich & Payne	Tetra Technologies Inc.
Diamond Offshore Drilling, Inc.	Hornbeck Offshore Services, Inc.	Tidewater Inc.
Dresser-Rand Group Inc.	Parker Drilling	Willbros Group Inc.
	Patterson-UTI Energy Inc.	

Key Compensation Elements

The committee believes the compensation packages we provide to our executives, including the named executive officers, should include base salary, short-term incentive compensation that rewards performance as measured against established goals, and longer-term incentive compensation that incentivizes the achievement of long-term strategic objectives and the creation of shareholder value. The committee believes the form of compensation should include both cash and stock-based compensation. As noted above, for 2011 the principal components of compensation for named executive officers were: base salary; short-term and long-term incentive and retention compensation; long-term equity-based awards; and benefits.

In making compensation decisions, the committee compares each element of total compensation to peer data and consultant-provided third party-published survey data, combined with its judgment and philosophy. The committee targets total direct compensation for named executive officers, which includes base salary, cash retention awards, short-term and long-term cash incentives and long-term equity incentives, valued at the grant date, at the median of total compensation paid to similarly situated executive officers within the peer group. Variations may occur due to an individual executive officer s scope of responsibility and performance.

A significant percentage of total compensation is allocated to short-term and long-term incentives and therefore is at risk. For the 2011 year, 80.8% of the compensation mix for our NEO s was composed of variable and at-risk compensation elements. Income from such incentive compensation programs is primarily realized as a result of the performance of our company and the individual, depending on the type of award, compared to established goals. There is no pre-established policy or target for the allocation between either cash and noncash or short-term and long-term incentive compensation.

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The committee targets total direct compensation at the 50th-75th percentile of the latest available compensation data. For 2011, total direct compensation was below the median for all of our named executive officers for whom we have comparable data available among our peer group.

The following is a discussion of each compensation element and the actions taken by the committee in 2011 with respect to each element.

Base Salary

The committee believes base salary is a critical element of executive compensation because it provides executives with a base level of monthly income. The committee determines the base salary of each named executive officer based on his or her position and responsibility. During its review of base salaries for executives, the committee primarily considers:

- Individual performance of the executive, including leadership and execution of strategic initiatives and the accomplishment of goals established for each of them;
- Market data provided by our outside compensation consultant;
- The executive s total compensation, both individually and relative to other officers; and
- For named executive officers other than the chief executive officer, the recommendations of the chief executive officer.

The committee considers base salary levels at least annually as part of its review of the performance of our named executive officers and from time to time upon a promotion or other change in job responsibilities. Salaries are determined independently of other compensation elements by using relevant economic factors, performance and peer group surveys as guidelines.

The committee reviewed the base salaries of our named executive officers in the first quarter of 2011 and decided, given the current economic environment and performance of the company, to maintain the 2011 salaries at their current levels without any increase, despite the fact that Messrs. Rynd, Noe, and Carr voluntarily took a 10% reduction in their respective salaries during the 2009 year. At its meeting in the first quarter of 2012, recognizing the continuing compensation objective of retaining its senior management team, the Committee approved salary increases for all of its named executive officers. Mr. Rynd declined a salary increase that the Committee recommended, thus, at his request his salary will remain at $630,000. The salary increases are set forth in the table below and were effective as of March 5, 2012:

Name of Executive Officer	Previous Salary	New Salary
James W. Noe	$337,500	$ 375,000*
Stephen M. Butz	$300,000	$ 375,000
Terrell L. Carr	$274,500	$ 325,000
Todd A. Pellegrin	$250,000	$ 275,000

* This increase restored Mr. Noe s salary to the level that it was prior to the voluntary salary reduction in 2009.

Short-term and Long-term Incentive and Retention Compensation

We did not award any discretionary bonuses to our named executive officers during the 2011 year. Cash bonus awards were granted pursuant to two plans, the Annual HERO Performance Bonus Plan and the Incentive and Retention Plan.

Annual HERO Performance Bonus Plan

The Hercules Offshore Incentive Compensation Program, referred to in this proxy statement as the HERO Plan, is an annual cash incentive program the committee approved for use beginning in 2006. The HERO Plan provides guidelines for the calculation of annual non-equity incentive-based compensation, subject to committee oversight. The committee, in its discretion, from time to time may modify certain elements of the guidelines in order to account for special events, such as acquisitions made by the company, or to more closely align the guidelines with the strategic objectives of the company. At the end of 2010, the committee established a target range of eligibility for potential payouts for the named executive officers. The various incentive levels are based on competitive information and the participant s responsibility for impacting our results, with threshold, target and maximum award opportunities established as a percentage of base salary.

In December 2010, the committee determined the components of the HERO Plan for 2011. As noted above, the committee selected performance metrics that would align our officers incentives with the achievement of company objectives necessary to maintain compliance with the covenants in our current credit agreement. As the 2011 metrics are similar to the metrics that were used for the 2010 HERO Plan, the committee analyzed whether these metrics were achieving the objective of incentivizing the employees to act for the betterment of our company and determined that they were effective for the 2010 year and remained appropriate for the 2011 year. Depending upon the role of the participant in the company, the components included earnings from operations adding back depreciation (EBITDA) as adjusted, working capital as a percentage of revenue, divisional EBITDA as adjusted, maintenance capital and drydock expenditures, safety goals, and personal goals. The committee set annual performance objectives for the safety and personal goals components. For all other components, which are financial in nature, the committee set objectives for the six months ended June 30, 2011. Mid-year the committee established the objectives for the financial components for the six months ended December 31, 2011.

Certain components of the objectives have threshold, target and maximum objectives. We believe that we set each objective at a demanding level compared to our budgeted numbers for that objective. Historically, the HERO Plan threshold level that we set corresponds to the number we have set for that objective in our budget for the year, and target HERO Plan levels correspond to numbers that are well above the budgeted number for that objective. The named executive officers participating in the HERO Plan receive payment of a percentage of his or her salary based on the achievement of the objectives. Each component is weighted with the total potential threshold, target and maximum award opportunities as a percent of the average salary for the named executive officers for 2011 set forth below:

	HERO Annual Performance Bonus Plan Incentive Levels for 2011		
Name	Threshold (%)	Target (%)	Maximum (%)
John T. Rynd	50%	100%	200%
Stephen M. Butz	30%	60%	120%
James W. Noe	30%	60%	120%
Terrell L. Carr	30%	60%	120%
Todd A. Pellegrin	25%	50%	100%

For 2011, the named executive officers HERO Plan awards, excluding Mr. Carr and Mr. Pellegrin, were based upon achievement of corporate objectives relating to Consolidated EBITDA, working capital as a percentage of revenue, safety goals and personal goals, with the components accounting for 40%, 10%, 10% and 40%, respectively. The 2011 HERO Plan award for Mr. Carr was based upon achievement of metrics that are more focused on our drilling division, which are Consolidated EBITDA, drilling division EBITDA, maintenance capital expenditures, safety goals, and personal goals, with these components accounting for 5%, 40%, 15%, 15% and 25%, respectively. The 2011 HERO Plan award for Mr. Pellegrin was based upon achievement of metrics that are more focused on our liftboat division, which are Consolidated EBITDA, liftboat division EBITDA, maintenance capital and drydock expenditures, safety goals, and personal goals, with these components accounting for 5%, 40%, 15%, 15% and 25%, respectively.

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The payout guidelines are as follows:

There is no payment for Consolidated EBITDA, drilling division EBITDA, liftboat division EBITDA, or working capital as a percentage of revenue objectives (the Financial Objectives), or the safety objective component of the HERO Plan award unless we achieve the threshold performance levels.

If for each of the Financial Objectives and the safety objective component of the HERO Plan award we exceed the threshold performance level but do not achieve the target performance level, the award opportunity for such Financial Objective is prorated between the threshold and target award opportunity;

If for each of the Financial Objectives and the safety objective component of the HERO Plan award we exceed the target performance level but do not achieve the maximum performance level, the award opportunity for such Financial Objective is prorated between the target and maximum award opportunity;

If for each of the Financial Objectives and the safety objective component of the HERO Plan award we exceed the maximum performance level, the award opportunity for such Financial Objective is the maximum award opportunity;

If the maintenance capital and drydock expenditures objective is achieved, the component is paid at the same level as the drilling or liftboat division EBITDA component, as applicable. If the drilling or liftboat division EBITDA objective component is below threshold and the maintenance capital and drydock expenditure objective is achieved, it is paid at one-half of the threshold level; and

If personal goals are achieved, payment is at the target level.

Upon completion of the fiscal year, the committee assesses performance for each objective of the HERO Plan comparing the actual results to the predetermined threshold, target and maximum levels for each objective, and a payment for each objective is calculated. The committee does not utilize discretion in determining award payments from the HERO Plan.

The following table shows the performance objectives, other than the personal goals, and the actual 2011 results:

2011 Performance Objectives and Results

Corporate:

	Threshold	Objective Target	Maximum	Weight	Actual
		(Dollars in millions)			
Six Months ended June 30, 2011					
Consolidated EBITDA	$ 77.1	$ 88.6	$ 100.2	20%	$ 79.2
Working Capital as a % of revenue	13.4%	12.9%	12.4%	5%	16.1%
Six Months ended December 31, 2011					
Consolidated EBITDA	$ 64.0	$ 73.6	$ 83.2	20%	$ 74.6
Working Capital as a % of revenue	15.2%	14.7%	14.2%	5%	17.0%
Full Year					
Safety Metric -TRIR	0.73	0.69	0.65	10%	0.62

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Drilling:

	Threshold	Objective Target	Maximum (Dollars in millions)	Weight	Actual
Six Months ended June 30, 2011					
Consolidated EBITDA	$ 77.1	$ 88.6	$ 100.2	2.5%	$ 79.2
Drilling Division EBITDA	$ 66.8	$ 76.8	$ 86.8	20%	$ 66.5
Maintenance Capital Expenditures		$ 31.9		7.5%	$ 22.7
Six Months ended December 31, 2011					
Consolidated EBITDA	$ 64.0	$ 73.6	$ 83.2	2.5%	$ 74.6
Drilling Division EBITDA	$ 48.3	$ 55.5	$ 62.8	20%	$ 69.4
Maintenance Capital Expenditures		$ 24.2		7.5%	$ 8.9
Full Year					
Safety Metric -TRIR	0.91	0.86	0.82	15%	0.88*

* Drilling s safety metric was paid out at target due to notable achievement towards ever-increasing standards.

Liftboat:

	Threshold	Objective Target	Maximum (Dollars in millions)	Weight	Actual
Six Months ended June 30, 2011					
Consolidated EBITDA	$ 77.1	$ 88.6	$ 100.2	2.5%	$ 79.2
Liftboat Division EBITDA	$ 31.7	$ 36.5	$ 41.2	20%	$ 33.1
Maintenance Capital and Drydock		$ 15.6		7.5%	$ 11.4
Six Months ended December 31, 2011					
Consolidated EBITDA	$ 64.0	$ 73.6	$ 83.2	2.5%	$ 74.6
Liftboat Division EBITDA	$ 33.8	$ 38.9	$ 43.9	20%	$ 29.5
Maintenance Capital and Drydock		$ 12.8		7.5%	$ 11.7
Full Year					
Safety Metrics TRIR	0.35	0.33	0.31	15%	0.14

For the personal goals component, each executive set four goals to accomplish during the year which were approved by the committee. The goals are strategically aligned with the company s goals and objectives. Where the goals are not quantitative, the extent to which the executive (other than the Chief Executive Officer) accomplishes or exceeds the goals is determined subjectively by the Chief Executive Officer and reviewed with the compensation committee, and the extent to which the Chief Executive Officer accomplishes or exceeds the goals is determined by the compensation committee. These judgments are reflected in the amount of the executive s bonus attributable to this metric.

The table below reflects the percentage of the personal goal component that each named executive officer achieved:

Name	% of Personal Goals Achieved
John T. Rynd	100%
Stephen M. Butz	100%
James W. Noe	100%
Terrell L. Carr	75%
Todd A. Pellegrin	100%

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The named executive officers received the following payments in March 2012, expressed as a percentage of weighted average base salary earned in 2011 and in dollars, under the HERO Plan based on the 2011 performance objectives set forth above.

Name	2011 HERO Award (% of Target)	2011 HERO Award
John T. Rynd	94%	$ 591,630
Stephen M. Butz	94%	169,037
James W. Noe	94%	190,167
Terrell L. Carr	95%	156,241
Todd A. Pellegrin	79%	98,593

The Committee reviewed the potential percent of salary award opportunity at threshold, target and maximum for all objectives, other than personal goals which are paid at the target level, that each of our named executive officers is eligible to receive in 2012 based on 2011 performance and did not change any of the percentages from the current year percentages. At its meeting in the first quarter of 2012, the Committee increased the threshold, target and maximum percentages for its named executive officers, except Mr. Rynd. The threshold, target and maximum bonus percentage modifications are set forth in the following table:

Name of Executive Officer	Previous Bonus Percentages	New Bonus Percentages
James W. Noe	Threshold 30% Target 60% Maximum 120%	Threshold 32.5% Target 65% Maximum 130%
Stephen M. Butz	Threshold 30% Target 60% Maximum 120%	Threshold 32.5% Target 65% Maximum 130%
Terrell L. Carr	Threshold 30% Target 60% Maximum 120%	Threshold 32.5% Target 65% Maximum 130%

Todd A. Pellegrin	Threshold 25% Target 50% Maximum 100%	Threshold 32.5% Target 65% Maximum 130%

2010 Executive Officer Cash Performance Incentive and Retention Plan

The 2010 Executive Officer Cash Performance Incentive and Retention Plan (the Incentive and Retention Plan) was adopted in 2010 as a short-term (two year) incentive and retention plan intended to stabilize our management team during an uncharacteristic period of economic volatility, and expired following the payout of amounts related to the 2011 year. The Incentive and Retention Plan was implemented at a time when the Company s stock price was abnormally low, and the committee could not competitively compensate the Company s executives under the LTIP without using an extraordinary amount of stock. This plan supplemented our LTIP which provided, at the time, non-competitive equity awards that were of minimal retention value. The Incentive and Retention Plan was based upon a target cash payout (the Target Cash Payout) for each named executive officer and upon the achievement of certain objectives to be established by the compensation committee of the company in each of fiscal years 2010 and 2011. At its meeting in the first quarter of 2010, the compensation committee approved the Incentive and Retention Plan amount potentially payable to each of the named executive officers for each of the 2010 and 2011 years. For 2011, each of the executive officers was granted the opportunity to receive 50% of his or her Target Cash Payout subject to continued employment with us throughout the 2011 year, with an opportunity to receive a maximum of 150% of his Target Cash Payout based upon the extent to which the company achieves the budgeted objectives in 2011. The first 50% of the Target Cash Payout serves to satisfy our objective of retention, while the potential increase to 150% of the Target Cash Payout that occurs only upon significant performance serves to incentivize the participants.

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The committee met and approved the 2011 Incentive and Retention Plan performance objectives in December 2010. The performance metrics chosen for the Incentive and Retention Plan are the same metrics used for the HERO Plan, and consistently throughout our plans generally, due to the importance of complying with the financial covenants contained within our credit agreement. It is critical for all participants, particularly our named executive officers, to focus on the performance metrics that are essential to our survival and growth as a company.

The following table shows the performance objectives, and the actual 2011 results:

2011 Performance Objectives and Results

Corporate:

	Threshold	Objective Target	Maximum	Weight	Actual
			(Dollars in millions)		
Six Months ended June 30, 2011					
Consolidated EBITDA	$ 65.5	$ 77.1	$ 88.6	34.0%	$ 79.2
Working Capital as a % of revenue	13.9%	13.4%	12.9%	8.0%	16.1%
Six Months ended December 31, 2011					
Consolidated EBITDA	$ 54.4	$ 64.0	$ 73.6	34.0%	$ 74.6
Working Capital as a % of revenue	15.7%	15.2%	14.7%	8.0%	17.0%
Full Year					
Safety	0.73	0.69	0.65	16%	0.62

Drilling:

	Threshold	Objective Target	Maximum	Weight	Actual
			(Dollars in millions)		
Six Months ended June 30, 2011					
Consolidated EBITDA	$ 65.5	$ 77.1	$ 88.6	3.5%	$ 79.2
Drilling Division EBITDA	$ 56.8	$ 66.8	$ 76.8	26.5%	$ 66.5
Maintenance Capital Expenditures		$ 31.9		10%	$ 22.7
Six Months ended December 31, 2011					
Consolidated EBITDA	$ 54.4	$ 64.0	$ 73.6	3.5%	$ 74.6
Drilling Division EBITDA	$ 41.1	$ 48.3	$ 55.5	26.5%	$ 69.4
Maintenance Capital Expenditures		$ 24.2		10%	$ 8.9
Full Year					
Safety	0.91	0.86	0.82	20%	0.88*

* Drilling s safety metric was paid out at target due to notable achievement towards ever-increasing standards.

Liftboat:

	Threshold	Objective Target	Maximum	Weight	Actual
			(Dollars in millions)		
Six Months ended June 30, 2011					
Consolidated EBITDA	$ 65.5	$ 77.1	$ 88.6	3.5%	$ 79.2
Liftboat Division EBITDA	$ 27.0	$ 31.7	$ 36.5	26.5%	$ 33.1

Maintenance Capital Expenditures		$ 15.6		10%	$ 11.4
Six Months ended December 31, 2011					
Consolidated EBITDA	$ 54.4	$ 64.0	$ 73.6	3.5%	$ 74.6
Liftboat Division EBITDA	$ 28.7	$ 33.8	$ 38.9	26.5%	$ 29.5
Maintenance Capital Expenditures		$ 12.8		10%	$ 11.7
Full Year					
Safety	0.35	0.33	0.31	20%	0.14

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On March 6, 2011, the committee revised the 2012 Target Cash Payouts for Mr. Butz from $180,000 to $216,000 in light of the changes in his position in 2010 and the need to adjust for his current salary. The Target Cash Payouts for the executive officers for 2011 and the actual payout made in the first quarter of 2012 are set forth in the table below:

Name of Executive Officer	Target Payout Year 2011	Actual Payout With Respect to Year 2011, paid in 2012
John T. Rynd	$ 783,600	$ 878,450
Stephen M. Butz	$ 216,000	$ 242,145
James W. Noe	$ 243,000	$ 272,414
Terrell L. Carr	$ 300,000	$ 359,316
Todd A. Pellegrin	$ 155,520	$ 158,639

The final payments under the Incentive and Retention Plan were paid in March 2012. The Incentive and Retention Plan expired at that time and was not renewed.

CEO Special Retention Award and Performance Awards

The committee, with assistance from F.W. Cook, reviewed the total direct compensation of the Chief Executive Officer and President in the fourth quarter of 2010. The study indicated that his total direct compensation opportunity was below the market median for the second year in a row. His 2010 target total direct compensation was 26% below the market median, and the 2009 target was 58% below the median. We also recognize that using the target total compensation numbers for Mr. Rynd does not give us a complete picture of the value that his compensation awards may actually provide to him, as equity-based awards are valued for accounting purposes in a very different manner than how actual payments or settlements may occur. For example, the grant date value of certain stock option awards that Mr. Rynd received during 2008 were valued in the aggregate at $1,267,560 for that year. These stock options were granted to Mr. Rynd on two separate dates in 2008, with an exercise price of $25.64 and $35.75 per share, respectively. The price of our common stock at the end of the 2011 year was $4.44. Each of the stock option awards Mr. Rynd received in 2008 are considered underwater, and would result in a value of $0 to Mr. Rynd unless or until our stock price increases to a value above the exercise price of the respective stock option. As a result, Mr. Rynd s target compensation and his actual compensation values for his stock option awards may differ significantly and in this case, overstate his compensation for the 2008 year by $1,267,560. A large part of Mr. Rynd s potential compensation will only become payable to him in the event that our stock price increases.

Mr. Rynd has voluntarily taken a salary reduction and turned down a discretionary bonus award in order to assist our company during volatile times. In light of his dedication and the market data results we have found, and the significant scope of Mr. Rynd s responsibilities and his successful leadership of the company during the economic downturn and industry challenges, the committee approved a special retention award and two performance awards for Mr. Rynd. The objective of the awards was to retain Mr. Rynd to develop and execute the strategic goals of the company, during a time when the company is continuing to face industry challenges.

The grant date of each of the three awards was January 1, 2011. Of the total potential value of the awards, 50% is subject to performance-vesting conditions and 50% is subject solely to time-vesting conditions. Vesting under each award is conditioned upon Mr. Rynd s continuous employment with us from the date of grant until the earlier of a specified vesting date or our change in control. Vesting of any award and the amount payable under any vested award do not affect vesting or the amount payable under any of the other awards. Subject to vesting, all awards are payable in cash within thirty days of vesting. No shares of common stock are issuable under any of the awards.

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The first award is pursuant to a special retention agreement (the Retention Agreement) by and between us and Mr. Rynd, which provides for a cash payment based on the value of 500,000 shares of our common stock, subject to vesting. Upon satisfaction of vesting requirements, 100% of the amount under the Retention Agreement becomes vested on December 31, 2013. If the requirements necessary for 100% vesting of this award are not met, no amounts become vested and no amount will be payable. The amount payable in cash under the first award shall be based on the product of 500,000 and the average price of the common stock for the 90 days prior to the date of vesting (the Average Share Price), but will not exceed $5,000,000.

The second and third awards are performance awards (Performance Awards) under the existing amended and restated Hercules Offshore 2004 Long-Term Incentive Plan (the 2004 LTIP). Each Performance Award provides for a cash payment, subject to vesting, based on 250,000 shares of our common stock. Upon satisfaction of vesting requirements, 100% of the first Performance Award becomes vested on December 31, 2013, and 100% of the second Performance Award becomes vested on March 31, 2014. Under each Performance Award, vesting is subject to the further performance requirement that the Average Share Price is at least $5.00. Subject to the satisfaction of the vesting requirements, the payout for each Performance Award shall be equal to the product of (1) 250,000, (2) the Average Share Price or $10.00, whichever is less, divided by $10.00, and (3) the lesser of the Average Share Price or $10.00. If the requirements necessary for vesting of a Performance Award are met, the amount payable in cash under each of the Performance Awards shall be not less than $625,000 and not more than $2,500,000.

Equity Based Program

Our 2004 LTIP encourages participants to focus on our long-term performance and provides an opportunity for executive officers and certain designated key employees to increase their stake in our company through stock options, restricted stock, pe