

HORNBECK OFFSHORE SERVICES INC /LA  
Form 10-Q  
November 06, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-32108

Hornbeck Offshore Services, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
103 NORTHPARK BOULEVARD, SUITE 300  
COVINGTON, LA 70433  
(Address of Principal Executive Offices) (Zip Code)  
(985) 727-2000  
(Registrant's Telephone Number, Including Area Code)

72-1375844  
(I.R.S. Employer  
Identification Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Non-accelerated filer

Accelerated filer  Smaller reporting company

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

The total number of shares of common stock, par value \$.01 per share, outstanding as of October 31, 2015 was 35,849,293.



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FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015  
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## PART 1—FINANCIAL INFORMATION

## Item 1—Financial Statements

## HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

|  | September 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$302,618                            | \$185,123            |
| Accounts receivable, net of allowance for doubtful accounts of \$2,996 and \$3,693, respectively                         | 86,456                               | 130,969              |
| Deferred tax assets, net   | 5,347                                | 45,531               |
| Other current assets   | 15,762                               | 20,049               |
| Current assets from discontinued operations  | —                                    | 470                  |
| Total current assets   | 410,183                              | 382,142              |
| Property, plant and equipment, net   | 2,516,894                            | 2,459,486            |
| Deferred charges, net  | 55,318                               | 68,953               |
| Other assets   | 15,301                               | 11,870               |
| Total assets   | \$2,997,696                          | \$2,922,451          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                      |
| Current liabilities:   |                                      |                      |
| Accounts payable   | \$37,028                             | \$42,404             |
| Accrued interest   | 13,591                               | 14,890               |
| Accrued payroll and benefits   | 14,097                               | 14,830               |
| Deferred revenue   | 592                                  | 1,561                |
| Other accrued liabilities  | 15,378                               | 9,360                |
| Total current liabilities  | 80,686                               | 83,045               |
| Long-term debt, net of original issue discount of \$44,141 and \$51,528, respectively                                    | 1,080,859                            | 1,073,472            |
| Deferred tax liabilities, net  | 389,520                              | 392,492              |
| Other liabilities  | 1,260                                | 1,117                |
| Long-term liabilities of discontinued operations   | —                                    | 1,560                |
| Total liabilities  | 1,552,325                            | 1,551,686            |
| Stockholders' equity:  |                                      |                      |
| Preferred stock: \$0.01 par value; 5,000 shares authorized; no shares issued and outstanding                             | —                                    | —                    |
| Common stock: \$0.01 par value; 100,000 shares authorized; 35,834 and 35,557 shares issued and outstanding, respectively | 358                                  | 356                  |
| Additional paid-in-capital   | 744,526                              | 736,294              |
| Retained earnings  | 704,509                              | 635,017              |
| Accumulated other comprehensive loss   | (4,022                               | ) (902               |
| Total stockholders' equity   | 1,445,371                            | 1,370,765            |
| Total liabilities and stockholders' equity   | \$2,997,696                          | \$2,922,451          |

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



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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2015               | 2014      | 2015              | 2014      |
|  | (Unaudited)        |           | (Unaudited)       |           |
| Revenues   | \$116,281          | \$166,890 | \$387,351         | \$474,574 |
| Costs and expenses:  |                    |           |                   |           |
| Operating expenses   | 54,938             | 76,425    | 173,900           | 216,411   |
| Depreciation   | 20,958             | 18,201    | 61,114            | 51,998    |
| Amortization   | 6,392              | 10,810    | 20,192            | 33,916    |
| General and administrative expenses                          | 12,188             | 11,220    | 37,143            | 40,392    |
|  | 94,476             | 116,656   | 292,349           | 342,717   |
| Gain on sale of assets                                       | 11,004             | —         | 44,060            | 161       |
| Operating income   | 32,809             | 50,234    | 139,062           | 132,018   |
| Other income (expense):                                      |                    |           |                   |           |
| Interest income  | 381                | 233       | 988               | 880       |
| Interest expense   | (9,712)            | (7,808)   | (29,895)          | (22,056)  |
| Other income (expense), net                                  | 94                 | 52        | 1,016             | 15        |
|  | (9,237)            | (7,523)   | (27,891)          | (21,161)  |
| Income before income taxes                                   | 23,572             | 42,711    | 111,171           | 110,857   |
| Income tax expense   | 9,148              | 16,152    | 41,679            | 41,719    |
| Income from continuing operations                            | 14,424             | 26,559    | 69,492            | 69,138    |
| Income (loss) from discontinued operations, net of tax       | —                  | (204)     | —                 | 216       |
| Net income   | \$14,424           | \$26,355  | \$69,492          | \$69,354  |
| Earnings per share:  |                    |           |                   |           |
| Basic earnings per common share from continuing operations   | \$0.40             | \$0.73    | \$1.95            | \$1.91    |
| Basic loss per common share from discontinued operations     | —                  | (0.01)    | —                 | —         |
| Basic earnings per common share                              | \$0.40             | \$0.72    | \$1.95            | \$1.91    |
| Diluted earnings per common share from continuing operations | \$0.40             | \$0.72    | \$1.92            | \$1.89    |
| Diluted loss per common share from discontinued operations   | —                  | (0.01)    | —                 | —         |
| Diluted earnings per common share                            | \$0.40             | \$0.71    | \$1.92            | \$1.89    |
| Weighted average basic shares outstanding                    | 35,832             | 36,318    | 35,723            | 36,247    |
| Weighted average diluted shares outstanding                  | 36,383             | 36,857    | 36,256            | 36,778    |

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2015               | 2014      | 2015              | 2014      |
|  | (Unaudited)        |           | (Unaudited)       |           |
| Net income                                 | \$ 14,424          | \$ 26,355 | \$ 69,492         | \$ 69,354 |
| Other comprehensive income:                |                    |           |                   |           |
| Foreign currency translation income (loss) | (2,866 )           | (181 )    | (3,120 )          | 44        |
| Total comprehensive income                 | \$ 11,558          | \$ 26,174 | \$ 66,372         | \$ 69,398 |

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

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

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2015                               | 2014      |
|  | (Unaudited)                        |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                    |           |
| Income from continuing operations  | \$69,492                           | \$69,138  |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                                    |           |
| Depreciation   | 61,114                             | 51,998    |
| Amortization   | 20,192                             | 33,916    |
| Stock-based compensation expense   | 7,957                              | 8,417     |
| Provision for bad debts  | (697)                              | (475)     |
| Deferred tax expense   | 41,516                             | 41,018    |
| Amortization of deferred financing costs   | 7,267                              | 5,971     |
| Gain on sale of assets   | (44,060)                           | (161)     |
| Changes in operating assets and liabilities:   |                                    |           |
| Accounts receivable  | 44,910                             | (30,537)  |
| Other current and long-term assets   | 1,185                              | (6,979)   |
| Deferred drydocking charges  | (12,034)                           | (39,648)  |
| Accounts payable   | (8,271)                            | (2,080)   |
| Accrued liabilities and other liabilities  | (2,804)                            | (9,635)   |
| Accrued interest   | (1,299)                            | (1,242)   |
| Net cash provided by operating activities  | 184,468                            | 119,701   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                    |           |
| Costs incurred for OSV newbuild program  | (152,415)                          | (275,150) |
| Net proceeds from sale of assets   | 152,000                            | 103       |
| Vessel capital expenditures  | (47,460)                           | (41,862)  |
| Non-vessel capital expenditures  | (15,855)                           | (2,814)   |
| Net cash used in investing activities  | (63,730)                           | (319,723) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                    |           |
| Deferred financing costs   | (2,089)                            | —         |
| Net cash proceeds from other shares issued   | 1,966                              | 2,403     |
| Net cash provided by (used in) financing activities  | (123)                              | 2,403     |
| <b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>  |                                    |           |
| Net cash provided by operating activities  | —                                  | 790       |
| Net cash provided by investing activities  | —                                  | 1,288     |
| Net cash provided by discontinued operations   | —                                  | 2,078     |
| Effects of exchange rate changes on cash   | (3,120)                            | 44        |
| Net increase (decrease) in cash and cash equivalents   | 117,495                            | (195,497) |
| Cash and cash equivalents at beginning of period   | 185,123                            | 439,291   |
| Cash and cash equivalents at end of period   | \$302,618                          | \$243,794 |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:</b>   |                                    |           |
| Cash paid for interest   | \$39,151                           | \$39,150  |
| Cash paid for income taxes   | \$3,331                            | \$4,111   |



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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The unaudited quarterly financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Annual Report on Form 10-K of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the "Company") for the year ended December 31, 2014. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. Recent Accounting Pronouncements

On April 7, 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update (ASU) No. 2015-03, "Interest - Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs" (Subtopic 835-30). The amendments in ASU No. 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU No. 2015-03. Therefore, the amortization of such costs will continue to be calculated using the interest method and be reported as interest expense. ASU No. 2015-03 requires retrospective application and will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in FASB Accounting Standard Codification (ASC) Topic 605, "Revenue Recognition." On July 9, 2015, the FASB voted to defer the effective date of ASU No. 2014-09 by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. ASU No. 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 requires retrospective application. The Company is evaluating the effect of this new standard on its financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 3. Earnings Per Share

Basic earnings per common share was calculated by dividing income from continuing operations and income from discontinued operations by the weighted average number of common shares outstanding during the period. Diluted earnings per common share was calculated by dividing income from continuing operations and income from discontinued operations by the weighted average number of common shares outstanding during the year plus the effect of dilutive stock options and restricted stock unit awards. Weighted average number of common shares outstanding was calculated by using the sum of the shares determined on a daily basis divided by the number of days in the period. The table below reconciles the Company's earnings per share (in thousands, except for per share data):

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2015               | 2014      | 2015              | 2014      |
| Income from continuing operations   | \$ 14,424          | \$ 26,559 | \$ 69,492         | \$ 69,138 |
| Income (loss) from discontinued operations, net of tax (1)                        | —                  | (204 )    | —                 | 216       |
| Net income  | \$ 14,424          | \$ 26,355 | \$ 69,492         | \$ 69,354 |
| Weighted average number of shares of common stock outstanding                     | 35,832             | 36,318    | 35,723            | 36,247    |
| Add: Net effect of dilutive stock options and unvested restricted stock (2)(3)(4) | 551                | 539       | 533               | 531       |
| Weighted average number of dilutive shares of common stock outstanding            | 36,383             | 36,857    | 36,256            | 36,778    |
| Earnings per common share:  |                    |           |                   |           |
| Basic earnings per common share from continuing operations                        | \$ 0.40            | \$ 0.73   | \$ 1.95           | \$ 1.91   |
| Basic loss per common share from discontinued operations                          | —                  | (0.01 )   | —                 | —         |
| Basic earnings per common share   | \$ 0.40            | \$ 0.72   | \$ 1.95           | \$ 1.91   |
| Diluted earnings per common share from continuing operations                      | \$ 0.40            | \$ 0.72   | \$ 1.92           | \$ 1.89   |
| Diluted loss per common share from discontinued operations                        | —                  | (0.01 )   | —                 | —         |
| Diluted earnings per common share   | \$ 0.40            | \$ 0.71   | \$ 1.92           | \$ 1.89   |

(1) On August 29, 2013, the Company closed the sale of its Downstream segment.

(2) For the three and nine months ended September 30, 2015, the Company had 317 and 326 anti-dilutive stock options, respectively. For the three and nine months ended September 30, 2014, the Company had no anti-dilutive stock options. Stock options are anti-dilutive when the exercise price of the options is greater than the average market price of the common stock for the period or when the results from operations are a net loss.

(3) For the three and nine months ended September 30, 2015 and 2014, the 2019 convertible senior notes were not dilutive, as the average price of the Company's stock was less than the effective conversion price of such notes. It is the Company's stated intention to redeem the principal amount of its 2019 convertible senior notes in cash and the Company has used the treasury method for determining potential dilution in the diluted earnings per share computation.

(4) Dilutive unvested restricted stock units are expected to fluctuate from quarter to quarter depending on the Company's performance compared to a predetermined set of performance criteria. See Note 6 to these financial statements for further information regarding certain of the Company's restricted stock grants.

## 4. Vessel Sales

On February 27, 2015, the Company closed on the sale of three 250EDF class OSVs, the HOS Arrowhead, the HOS Eagleview and the HOS Westwind, which were previously chartered to the U.S. Navy, for cash consideration of \$114.0 million. The sale resulted in a pre-tax gain of approximately \$33.1 million (\$20.7 million after-tax or \$0.57 per diluted share). The vessel purchase agreement included an option for the acquisition of a fourth vessel chartered to the U.S. Navy, the HOS Black Powder. On August 28, 2015, the Company closed on the sale of the HOS Black Powder for incremental cash consideration of \$38.0 million. This sale resulted in a pre-tax gain of approximately \$11.0 million (\$6.7 million after-tax or \$0.19 per diluted share).

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-Term Debt

As of the dates indicated, the Company had the following outstanding long-term debt (in thousands):

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| 5.875% senior notes due 2020  | \$375,000             | \$375,000            |
| 5.000% senior notes due 2021  | 450,000               | 450,000              |
| 1.500% convertible senior notes due 2019, net of original issue discount of \$44,141 and \$51,528 | 255,859               | 248,472              |
| Revolving credit facility due 2020  | —                     | —                    |
|   | 1,080,859             | 1,073,472            |
| Less current maturities   | —                     | —                    |
|   | \$1,080,859           | \$1,073,472          |

The table below summarizes the Company's cash interest payments (in thousands):

|  | Semi-Annual Cash<br>Interest Payment | Payment Dates           |
|--|--------------------------------------|-------------------------|
| 5.875% senior notes due 2020             | \$11,000                             | April 1 and October 1   |
| 5.000% senior notes due 2021             | 11,300                               | March 1 and September 1 |
| 1.500% convertible senior notes due 2019 | 2,300                                | March 1 and September 1 |

As of September 30, 2015, there were no amounts drawn under the Company's \$300.0 million revolving credit facility and \$0.5 million posted as letters of credit. As of September 30, 2015, the Company was in compliance with all financial covenants required by its revolving credit facility and the full amount of the undrawn borrowing base under the facility was available to the Company for all permissible uses of proceeds, including working capital, if necessary. The Company estimates the fair value of its 2020 senior notes, 2021 senior notes and 2019 convertible senior notes by primarily using quoted market prices. The fair value of the Company's revolving credit facility, when there are outstanding balances, approximates its carrying value. The face value, carrying value and fair value of the Company's total debt was \$1,125.0 million, \$1,080.9 million and \$858.8 million, respectively, as of September 30, 2015. Given the observability of the inputs to these estimates, the fair values presented for long-term debt have been assigned a Level 2 of the three-level valuation hierarchy.

## Capitalized Interest

During the three and nine months ended September 30, 2015, the Company capitalized approximately \$6.3 million and \$18.2 million, respectively, of interest costs related to the construction of vessels. During the three and nine months ended September 30, 2014, the Company capitalized approximately \$8.2 million and \$25.9 million, respectively, of interest costs related to the construction of vessels.

## 6. Incentive Compensation

## Stock-Based Incentive Compensation Plan

In June 2015, the Company received stockholder approval to increase the maximum number of shares available under its long-term compensation plan by 750,000. The Company's stock-based incentive compensation plan now covers a maximum of 4.95 million shares of common stock that allows the Company to grant restricted stock awards, restricted stock unit awards, or collectively restricted stock, stock options, stock appreciation rights and fully-vested common stock to employees and directors. As of September 30, 2015, the Company has granted awards covering 4.0 million shares of common stock under such plan.



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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

During the nine months ended September 30, 2015, the Company granted cash-settled phantom restricted stock units, time-based restricted stock units, performance-based restricted stock units and fully-vested common stock as noted in the table below.

|   | Directors | Executive Officers | Certain Managers |
|---|-----------|--------------------|------------------|
| Cash-settled phantom restricted stock units |           | X                  | X                |
| Time-based restricted stock units           |           | X                  |                  |
| Performance-based restricted stock units    |           | X                  |                  |
| Fully-vested common stock                   | X         |                    |                  |

The shares to be received under the performance-based restricted stock units are calculated based on the Company's performance compared to three pre-determined criteria, as defined by the restricted stock agreements governing such awards. The actual number of shares that could be received by the award recipients can range from 0% to 150% of the awards granted depending on the Company's performance. During the nine months ended September 30, 2015, the Company granted 353,940 time-based and performance-based restricted stock units, 47,504 cash-settled phantom restricted stock units and 39,945 shares of fully-vested common stock.

Compensation expense related to 2015 restricted stock unit grants is recognized over the three-year service period. The fair value of the Company's performance-based restricted stock units, which is the stock price on the date of grant, is applied to the total shares that are expected to fully vest and is amortized over the vesting period, which is generally three years, based on the Company's internal performance measured against the pre-determined criteria, as applicable. The compensation expense related to time-based restricted stock units and cash-settled phantom restricted stock units are amortized over a vesting period of up to three years, as applicable, and is determined based on the market price of the Company's stock on the date of grant applied to the total shares that are expected to fully vest. In addition, the cash-settled phantom restricted stock units are re-measured quarterly and classified as a liability, due to the settlement of these awards in cash. In addition to the restricted stock units granted in 2015, the Company granted performance-based and time-based restricted stock units in 2012, 2013 and 2014. During the nine months ended September 30, 2015, the Company issued 277,120 shares, in the aggregate, of stock due to: 1) employees exercising previously vested stock options, 2) vestings of restricted stock units, 3) employee purchases under the Company's Employee Stock Purchase Plan and 4) the issuance of fully-vested common stock.

Stock-based compensation expense charges from previously issued equity grants and the financial impact such grants have on the Company's operating results are reflected in the table below (in thousands, except for per share data):

|                                   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|-----------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                   | 2015                                | 2014    | 2015                               | 2014    |
| Income before taxes               | \$3,183                             | \$2,101 | \$7,957                            | \$8,417 |
| Net income                        | \$1,948                             | \$1,306 | \$4,973                            | \$5,249 |
| Earnings per common share:        |                                     |         |                                    |         |
| Basic earnings per common share   | \$0.05                              | \$0.04  | \$0.14                             | \$0.14  |
| Diluted earnings per common share | \$0.05                              | \$0.04  | \$0.14                             | \$0.14  |

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. Commitments and Contingencies

Vessel Construction

The Company's fifth OSV newbuild program consists of vessel construction contracts with three domestic shipyards to build four 300 class OSVs, five 310 class OSVs, ten 320 class OSVs and five 310 class MPSVs. As of September 30, 2015, the Company had placed 17 vessels in service under such program. The seven remaining vessels under this 24-vessel domestic newbuild program are currently expected to be placed in service as follows: three in the remainder of 2015 and four in 2016. Based on current contracts and internal estimates, the aggregate cost of this program, excluding construction period interest, is expected to be approximately \$1,265.0 million, of which \$35.0 million and \$60.6 million are expected to be incurred in the remainder of 2015 and 2016, respectively. From the inception of this program through September 30, 2015, the Company had incurred \$1,169.4 million, or 92.4%, of total expected project costs.

The Company has experienced production deficiencies at two of the shipyards, at which three vessels are being constructed, and expects to invoke dispute resolution mechanisms against one of them, unless an acceptable resolution is reached. The Company has been informed by the other yard that it is experiencing financial difficulties. These difficulties could impact the schedule for delivery of vessels being constructed there. The Company has security from an investment-grade rated third-party that would support completion of the work should these financial problems persist.

Contingencies

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. The Company insures against losses relating to its vessels, pollution and third party liabilities, including claims by employees under Section 33 of the Merchant Marine Act of 1920, or the Jones Act. Third party liabilities and pollution claims that relate to vessel operations are covered by the Company's entry in a mutual protection and indemnity association, or P&I Club, as well as by marine liability policies in excess of the P&I Club's coverage. The Company provides reserves for any individual claim deductibles for which the Company remains responsible by using an estimation process that considers Company-specific and industry data, as well as management's experience, assumptions and consultation with outside counsel. As additional information becomes available, the Company will assess the potential liability related to its pending claims and revise its estimates. Although revisions to such estimates historically have not been material, changes in estimates of the potential liability could materially impact the Company's results of operations, financial position or cash flows.

Vessel charters with Petrobras include limitations regarding fuel consumption. Petrobras has asserted claims against the Company relating to excess fuel consumption. The Company's exposure for these assessments is in the range of approximately \$0.5 million to \$3.0 million. The Company disagrees with these assessments. During the second quarter of 2015, the Brazilian court ruled in the Company's favor related to these claims. Subsequent to this ruling, Petrobras appealed this decision to a higher court. While the Company cannot currently estimate the amounts or timing of the resolution of these matters, the Company believes that the outcome will not have a material impact on its liquidity or financial position, but the ultimate resolution could have a material impact on its interim or annual results of operations.



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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

During 2013, the Company commenced the process of assigning the in-country vessel management services for its four vessels operating in Brazil from a third-party provider to a wholly-owned subsidiary of the Company. As a result, this assignment has been interpreted by local authorities as a new importation of these vessels resulting in an importation assessment ranging from \$0.5 million to \$3.5 million. The Company disagrees with this interpretation and related assessment. During the third quarter of 2015, the Brazilian court ruled in the Company's favor related to these claims and this decision has been appealed to a higher court. As of September 30, 2015, these potential importation duties have not been recorded in its financial statements. While the Company cannot estimate the amounts or timing of the resolution of this matter, the Company believes that the outcome will not have a material impact on its liquidity or financial position, but the ultimate resolution could have a material impact on its interim or annual results of operations.

During 2012, an Upstream customer, ATP Oil and Gas, Inc., initiated a reorganization proceeding under Chapter 11 of the United States Bankruptcy Code. Pre-petition receivables from ATP were \$4.8 million and the Company has recorded \$0.9 million in reserves. While the Company believes that the net receivables are collectible, it will continue to monitor the proceedings, which may result in actual collections that may differ materially from the current estimate.

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Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited consolidated financial statements and notes to unaudited consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2014. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements. See “Forward Looking Statements” for additional discussion regarding risks associated with forward-looking statements. In this Quarterly Report on Form 10-Q, “company,” “we,” “us,” “our” or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. Please refer to Item 5—Other Information for a glossary of terms used throughout this Quarterly Report on Form 10-Q.

In this Quarterly Report on Form 10-Q, we rely on and refer to information regarding our industry from the BOEM, EIA and IHS-Petrodata, Inc. These organizations are not affiliated with us and are not aware of and have not consented to being named in this Quarterly Report on Form 10-Q. We believe this information is reliable. In addition, in many cases we have made statements in this Quarterly Report on Form 10-Q regarding our industry and our position in the industry based on our experience in the industry and our own evaluation of market conditions.

General

During 2015, oil prices have remained in a trading range of \$35 to \$65 per barrel and an average of \$50.62. The drop in oil price is due to surplus oil, driven in part by a significant rise in U.S. shale oil production as well as other previously unavailable sources of supply. In addition, economic weakness in many regions of the world, notably Europe and China, has reduced the previously expected oil consumption growth rate. As a result of lower oil prices, major and independent oil companies with deepwater operations have significantly reduced their capital spending budgets, which are the principal demand drivers for our services. Less spending by our customers combined with a global oversupply of OSVs, including high-spec OSVs in our core markets, for the current market conditions, have resulted in reductions in both our dayrates and utilization. We cannot predict when and to what extent oil prices will improve.

In the GoM, 16 high-spec OSVs have been delivered into the domestic market during 2015, including three of our own. We expect an additional eight high-spec OSVs to be delivered into domestic service during 2016. We do not anticipate significant growth in the supply of high-spec OSVs beyond the currently anticipated level of 198 of such vessels by the end of 2016. During the third quarter of 2015, there was an average of roughly 50 floating rigs available in the GoM, while an average of 37 were working. As of October 28, 2015, there were 52 rigs available and 44 were working. However, five floating rigs have contracts that will expire during the remainder of 2015 and one additional rig is scheduled to leave the region. We do not know whether the remaining rigs will receive contract renewals for operations in the GoM. We do not expect any new rigs to arrive in the GoM during the fourth quarter of 2015. We have recently observed that, following arrival in the GoM, it can take several months for a rig to commence work and, therefore, we do not know the timing of when operations of newly arrived rigs will begin. Given these market conditions, we anticipate our average dayrates and utilization levels to be adversely affected compared to our 2013 and 2014 results. However, the GoM is one of the premier deepwater markets in the world and we are committed to supporting our customers in this market. We feel that once the current supply and demand fundamentals return to normal conditions that our results from operations will improve.

In recognition of these weak market conditions, we stacked 21 OSVs on various dates from October 2014 through September 30, 2015. Post quarter-end, we have stacked an additional six new generation OSVs to-date and expect to stack three additional vessels during the remainder of the fourth quarter of 2015. These

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vessel stackings represent 44.1% of our fleetwide vessel headcount, but only 30.0% of our total OSV and MPSV deadweight tonnage. By stacking vessels, we expect to significantly reduce our cash outlays and lower our risk profile, however, we will also have fewer revenue-producing units in service that can contribute to our results and contribute cash flows to cover our fixed costs and commitments. We may choose to stack additional vessels should market conditions warrant.

In Mexico, while the energy reform continues to progress, questions remain on the timing of the incremental activity expected in the deepwater GoM given the current oil price environment. Pemex budget reductions have resulted in contract cancellations and slower than expected growth in the market for our vessels in Mexico. We have noticed that Pemex is reviewing its vessel needs and, in certain circumstances, is not exercising options for vessels that are currently operating in its chartered fleet. Nevertheless, we consider Mexico to be a long-term market for our services, especially in light of energy reforms being carried out there. Despite current oil prices, we recently observed improved bidding results from several international companies related to shallow water auctions in Mexico. We will continue to explore opportunities to place additional vessels into Mexico to support Pemex in its ongoing shallow water activity. During the third quarter of 2015, the long-term charters for our four vessels that were operating for Petrobras in Brazil expired. Petrobras generally appears to be moving towards an "all Brazilian flag" vessel fleet, which will limit opportunities in Brazil for foreign flag vessels, except where highly specialized. We will continue to monitor this market to charter our vessels to Petrobras or other companies operating in that region.

Our Vessels

All of our current Upstream vessels are qualified under the Jones Act to engage in U.S. coastwise trade, except for eight foreign-flagged new generation OSVs and two foreign-flagged MPSVs. As of September 30, 2015, our 38 active new generation OSVs and six MPSVs were operating in domestic and international areas as noted in the following table:

Operating Areas

|                           |    |
|---------------------------|----|
| Domestic                  |    |
| GoM                       | 29 |
| Other U.S. coastlines (1) | 1  |
|                           | 30 |
| Foreign                   |    |
| Mexico                    | 12 |
| Middle East               | 1  |
| Europe                    | 1  |
|                           | 14 |
| Total Vessels (2)         | 44 |

(1) Includes one vessel that is currently supporting the military, but excludes four non-owned vessels currently being operated and maintained for the military.

(2) Excluded from this table are 21 new generation OSVs and one non-core conventional OSV that were stacked as of September 30, 2015.

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## Critical Accounting Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based on available information. We base our estimates and judgments on historical experience and various other factors that we believe are reasonable based upon the information available. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies and estimates are discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. We continue to monitor facts and circumstances for asset impairment indicators for our vessel fleet as is more fully described in such item and section of our 2014 Form 10-K. We continue to conclude that no indicators are present for our fleet.

## Results of Operations

The tables below set forth the average dayrates, utilization rates and effective dayrates for our new generation OSVs and the average number and size of vessels owned during the periods indicated. These vessels generate a substantial portion of our revenues and operating profit. Excluded from the OSV information below are the results of operations for our MPSVs, our shore-base facility, and vessel management services. The Company does not provide average or effective dayrates for its MPSVs. MPSV dayrates are impacted by highly variable customer-required cost-of-sales associated with ancillary equipment and services, such as ROVs, accommodation units and cranes, which are typically recovered through higher dayrates charged to the customer. Due to the fact that each of our MPSVs have a workload capacity and significantly higher income-generating potential than each of the Company's new generation OSVs, the utilization and dayrate levels of our MPSVs can have a very large impact on our results of operations. For this reason, our consolidated operating results, on a period-to-period basis, are disproportionately impacted by the level of dayrates and utilization achieved by our six MPSVs.

|   | Three Months Ended |          | Nine Months Ended |          |   |   |
|---|--------------------|----------|-------------------|----------|---|---|
|   | September 30,      |          | September 30,     |          |   |   |
|   | 2015               | 2014     | 2015              | 2014     |   |   |
| Offshore Supply Vessels:                          |                    |          |                   |          |   |   |
| Average number of new generation OSVs (1)         | 59.6               | 58.9     | 60.1              | 56.4     |   |   |
| Average number of active new generation OSVs (2)  | 41.5               | 58.9     | 45.0              | 56.4     |   |   |
| Average new generation OSV fleet capacity (DWT)   | 205,734            | 185,465  | 205,467           | 170,202  |   |   |
| Average new generation OSV capacity (DWT)         | 3,451              | 3,147    | 3,419             | 3,015    |   |   |
| Average new generation OSV utilization rate (3)   | 50.3               | % 81.7   | % 57.1            | % 81.0   | % | % |
| Effective new generation OSV utilization rate (4) | 72.2               | % 81.7   | % 76.2            | % 81.0   | % | % |
| Average new generation OSV dayrate (5)            | \$25,699           | \$28,049 | \$26,885          | \$27,345 |   |   |
| Effective dayrate (6)                             | \$12,927           | \$22,916 | \$15,351          | \$22,149 |   |   |

(1) We owned 59 new generation OSVs as of September 30, 2015. Excluded from this data is one stacked conventional OSV that we consider to be a non-core asset. Also excluded from this data are six MPSVs owned and operated by the Company. During the first nine months of 2015, we placed in service three 320 class OSVs, the HOS Caledonia, the HOS Crestview and the HOS Carousel.

(2) In response to weak market conditions, we elected to stack 21 new generation OSVs on various dates from October 2014 through September 30, 2015. Subsequent to September 30, 2015, we have stacked six vessels and we anticipate stacking three additional vessels by December 31, 2015. Active new generation OSVs represent vessels that are immediately available for service during each respective period.

(3) Average utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.

(4) Effective utilization rate is based on a denominator comprised only of vessel-days available for service by the active fleet, which excludes the impact of stacked vessel days.

Average new generation OSV dayrates represent average revenue per day, which includes charter hire, crewing (5) services, and net brokerage revenues, based on the number of days during the period that the OSVs generated revenues.

(6) Effective dayrate represents the average dayrate multiplied by the utilization rate for the respective period.

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## Non-GAAP Financial Measures

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Securities and Exchange Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation and amortization. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to this measure is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with GAAP, it should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

EBITDA is widely used by investors and other users of our financial statements as a supplemental financial measure that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our ability to service debt, pay deferred taxes and fund drydocking charges and other maintenance capital expenditures. We also believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our cash flow generating capacity from quarter to quarter and year to year.

EBITDA is also a financial metric used by management (i) as a supplemental internal measure for planning and forecasting overall expectations and for evaluating actual results against such expectations; (ii) as a significant criteria for annual incentive cash compensation paid to our executive officers and bonuses paid to other shore-based employees; (iii) to compare to the EBITDA of other companies when evaluating potential acquisitions; and (iv) to assess our ability to service existing fixed charges and incur additional indebtedness.

The following table provides the detailed components of EBITDA from continuing operations as we define that term for the three and nine months ended September 30, 2015 and 2014, respectively (in thousands):

|                                   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|-----------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                   | 2015                                | 2014     | 2015                               | 2014      |
| Components of EBITDA:             |                                     |          |                                    |           |
| Income from continuing operations | \$14,424                            | \$26,559 | \$69,492                           | \$69,138  |
| Interest expense, net             |                                     |          |                                    |           |
| Debt obligations                  | 9,712                               | 7,808    | 29,895                             | 22,056    |
| Interest income                   | (381)                               | (233)    | (988)                              | (880)     |
| Total interest, net               | 9,331                               | 7,575    | 28,907                             | 21,176    |
| Income tax expense                | 9,148                               | 16,152   | 41,679                             | 41,719    |
| Depreciation                      | 20,958                              | 18,201   | 61,114                             | 51,998    |
| Amortization                      | 6,392                               | 10,810   | 20,192                             | 33,916    |
| EBITDA from continuing operations | \$60,253                            | \$79,297 | \$221,384                          | \$217,947 |

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The following table reconciles EBITDA from continuing operations to cash flows provided by operating activities for the three and nine months ended September 30, 2015 and 2014, respectively (in thousands):

|   | Three Months Ended    |           | Nine Months Ended     |           |
|---|-----------------------|-----------|-----------------------|-----------|
|   | September 30,<br>2015 | 2014      | September 30,<br>2015 | 2014      |
| <b>EBITDA Reconciliation to GAAP:</b>           |                       |           |                       |           |
| EBITDA from continuing operations               | \$60,253              | \$79,297  | \$221,384             | \$217,947 |
| Cash paid for deferred drydocking charges       | (5,725 )              | (10,008 ) | (12,034 )             | (39,648 ) |
| Cash paid for interest                          | (13,879 )             | (13,878 ) | (39,151 )             | (39,150 ) |
| Cash paid for taxes                             | (1,447 )              | (2,400 )  | (3,331 )              | (4,111 )  |
| Changes in working capital                      | 18,115                | 4,485     | 54,400                | (23,118 ) |
| Stock-based compensation expense                | 3,183                 | 2,101     | 7,957                 | 8,417     |
| Gain on sale of assets                          | (11,004 )             | —         | (44,060 )             | (161 )    |
| Changes in other, net                           | 223                   | (618 )    | (697 )                | (475 )    |
| Net cash flows provided by operating activities | \$49,719              | \$58,979  | \$184,468             | \$119,701 |

In addition, we also make certain adjustments to EBITDA for loss on early extinguishment of debt, stock-based compensation expense and interest income to compute ratios used in certain financial covenants of our revolving credit facility with various lenders. We believe that these ratios are a material component of certain financial covenants in such credit agreements and failure to comply with the financial covenants could result in the acceleration of indebtedness or the imposition of restrictions on our financial flexibility.

The following table provides certain detailed adjustments to EBITDA, as defined in our revolving credit facility, for the three and nine months ended September 30, 2015 and 2014, respectively (in thousands):

|                                  | Three Months Ended    |         | Nine Months Ended     |         |
|----------------------------------|-----------------------|---------|-----------------------|---------|
|                                  | September 30,<br>2015 | 2014    | September 30,<br>2015 | 2014    |
| Stock-based compensation expense | \$3,183               | \$2,101 | \$7,957               | \$8,417 |
| Interest income                  | 381                   | 233     | 988                   | 880     |

Set forth below are the material limitations associated with using EBITDA as a non-GAAP financial measure compared to cash flows provided by operating activities.

• EBITDA does not reflect the future capital expenditure requirements that may be necessary to replace our existing vessels as a result of normal wear and tear,

• EBITDA does not reflect the interest, future principal payments and other financing-related charges necessary to service the debt that we have incurred in acquiring and constructing our vessels,

• EBITDA does not reflect the deferred income taxes that we will eventually have to pay once we are no longer in an overall tax net operating loss carryforward position, as applicable, and

• EBITDA does not reflect changes in our net working capital position.

Management compensates for the above-described limitations in using EBITDA as a non-GAAP financial measure by only using EBITDA to supplement our GAAP results.

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Summarized financial information for the three months ended September 30, 2015 and 2014, respectively, is shown below in the following table (in thousands, except percentage changes):

|   | Three Months Ended<br>September 30, |           | Increase (Decrease) |             |    |
|---|-------------------------------------|-----------|---------------------|-------------|----|
|   | 2015                                | 2014      | \$<br>Change        | %<br>Change |    |
| Revenues:                                       |                                     |           |                     |             |    |
| Domestic  | \$80,707                            | \$121,425 | \$(40,718)          | (33.5)      | )% |
| Foreign   | 35,574                              | 45,465    | (9,891)             | (21.8)      | )% |
|   | 116,281                             | 166,890   | (50,609)            | (30.3)      | )% |
| Operating expenses                              | 54,938                              | 76,425    | (21,487)            | (28.1)      | )% |
| Depreciation and amortization                   | 27,350                              | 29,011    | (1,661)             | (5.7)       | )% |
| General and administrative expenses             | 12,188                              | 11,220    | 968                 | 8.6         | %  |
|   | 94,476                              | 116,656   | (22,180)            | (19.0)      | )% |
| Gain on sale of assets                          | 11,004                              | —         | 11,004              | 100.0       | %  |
| Operating income                                | 32,809                              | 50,234    | (17,425)            | (34.7)      | )% |
| Interest expense                                | 9,712                               | 7,808     | 1,904               | 24.4        | %  |
| Interest income                                 | 381                                 | 233       | 148                 | 63.5        | %  |
| Income tax expense                              | 9,148                               | 16,152    | (7,004)             | (43.4)      | )% |
| Income from continuing operations               | 14,424                              | 26,559    | (12,135)            | (45.7)      | )% |
| Income from discontinued operations, net of tax | —                                   | (204)     | 204                 | (100.0)     | )% |
| Net income                                      | \$14,424                            | \$26,355  | \$(11,931)          | (45.3)      | )% |

#### Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

**Revenues.** Revenues for the three months ended September 30, 2015 decreased by \$50.6 million, or 30.3%, to \$116.3 million compared to the same period in 2014. Our weighted-average active operating fleet for the three months ended September 30, 2015 and 2014 was 48 and 63, respectively. The decrease in revenues was primarily due to soft market conditions in the GoM, which led to our decision to stack 21 OSVs on various dates from October 2014 through September 2015. For the three months ended September 30, 2015, we had an average of 18.1 vessels stacked compared to none in the prior-year quarter. The decrease in revenue was partially offset by \$7.4 million in revenue earned from the full or partial-period contribution of ten vessels that were placed in service since June 2014 under our fifth OSV newbuild program. Average new generation OSV dayrates were \$25,699 for the third quarter of 2015 compared to \$28,049 for the same period in 2014. Our new generation OSV utilization was 50.3% for the third quarter of 2015 compared to 81.7% for the same period in 2014. Excluding stacked vessel days, our new generation OSV effective utilization was 72.2% and 81.7% for the same periods, respectively. This decrease in utilization is primarily due to soft market conditions for high-spec OSVs operating in the GoM and the incremental vessels that were stacked. Domestic revenues decreased \$40.7 million from the year-ago quarter primarily due to lower dayrates earned by vessels operating in our fleet during the three months ended September 30, 2015 and the stacking of vessels since late 2014. Foreign revenues decreased by \$9.9 million, or 21.8%, primarily due to the mobilization of four OSVs from Brazil to the GoM and soft market conditions in foreign regions during the three months ended September 30, 2015. In addition, we mobilized two OSVs to the GoM during the prior-year period. Foreign revenues for the third quarter of 2015 comprised 30.6% of our total revenues compared to 27.2% for the year-ago quarter.

**Operating Expenses.** Operating expenses were \$54.9 million, a decrease of \$21.5 million, or 28.1%, for the three months ended September 30, 2015 compared to \$76.4 million for the same period in 2014. The decrease in operating expenses was primarily due to vessels that we stacked since late 2014, which resulted in a substantial reduction in mariner headcount. This decrease was partially offset by \$4.0 million of operating costs related to the full or partial-period contribution from vessels added to our fleet since June 2014. Aggregate cash operating expenses for our vessels are projected to be in the approximate annual range of





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\$223.9 million to \$228.9 million for the year ending December 31, 2015. The cash operating expense estimate is exclusive of any additional repositioning expenses we may incur in connection with the potential relocation of more of our vessels into international markets or back to the GoM or any customer-required cost-of-sales related to future contract fixtures that are typically recovered through higher dayrates.

**Depreciation and Amortization.** Depreciation and amortization was \$1.7 million, or 5.7%, lower for the three months ended September 30, 2015 compared to the same period in 2014. Depreciation increased by \$2.7 million primarily due to the contribution of ten vessels placed in service on various dates since June 2014. The depreciation increase was more than offset by a decrease in amortization expense of \$4.4 million, which was primarily due to five vessels sold, all at a gain, on various dates since October 2014 and the deferral of planned drydockings for stacked vessels. Depreciation and amortization expense is expected to increase from current levels as the vessels under our current newbuild program are placed in service and when any newly constructed vessels undergo their initial 30-month and 60-month recertifications.

**General and Administrative Expense.** General and administrative, or G&A, expenses of \$12.2 million, or 10.5% of revenues, increased by \$1.0 million during the three months ended September 30, 2015 compared to the same period in 2014. This increase in G&A expenses was primarily attributable to lower stock-based compensation expense reported in the prior-year quarter. We experienced a significant decline in our stock price during such period. Stock-based compensation expense during the third quarter of 2015 was impacted less by stock price volatility compared to the prior-year quarter. Our G&A expenses are expected to be in the approximate annual range of \$49.1 million to \$50.1 million for the year ending December 31, 2015. For future periods, we expect to remain within our historical range of G&A-to-revenue margins, as well as those of our domestic public OSV peer group.

**Gain on Sale of Assets.** During the three months ended September 30, 2015, we completed the sale of one 250EDF class OSV, the HOS Black Powder, to the U.S. Navy for cash consideration of \$38.0 million. The sale resulted in a pre-tax gain of approximately \$11.0 million (\$6.7 million after-tax or \$0.19 per diluted share). There was no gain or loss on sale of assets in the same period in 2014.

**Operating Income.** Operating income decreased by \$17.4 million, or 34.7%, to \$32.8 million during the three months ended September 30, 2015 compared to the same period in 2014 for the reasons discussed above. Operating income as a percentage of revenues was 28.2% for the three months ended September 30, 2015 compared to 30.1% for the same period in 2014. Excluding the gain on sale of assets, our operating income for the first quarter of 2015 would have been \$21.8 million, or 18.7% of revenues.

**Interest Expense.** Interest expense increased \$1.9 million during the three months ended September 30, 2015 compared to the same period in 2014, primarily due to capitalizing a lower percentage of interest compared to the same period in 2014. During the third quarter of 2015, we capitalized interest of \$6.3 million, or roughly 39.4% of our total interest costs, compared to capitalized interest of \$8.2 million, or roughly 51.3% of our total interest costs, for the same period in 2014.

**Interest Income.** Interest income was \$0.4 million during the three months ended September 30, 2015, which was \$0.1 million higher compared to the same period in 2014. Our average cash balance increased to \$289.0 million for the three months ended September 30, 2015 compared to \$248.6 million for the same period in 2014. The average interest rate earned on our invested cash balances was 0.5% and 0.4% during the three months ended September 30, 2015 and 2014, respectively. The increase in average cash balance was primarily due to cash inflows from the sale of one vessel to the U.S. Navy during the third quarter, partially offset by cash outflows associated with our fifth OSV newbuild program and lower revenues generated by active vessels operating in our fleet.

**Income Tax Expense.** Our effective tax rate was 38.8% and 37.8% for the three months ended September 30, 2015 and 2014, respectively. During the third quarter of 2015, our income tax expense primarily consisted of deferred taxes. Our income tax rate differs from the federal statutory rate primarily due to expected state tax liabilities and items not deductible for federal income tax purposes.

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Income from Continuing Operations. Income from continuing operations decreased by \$12.1 million to \$14.4 million for the three months ended September 30, 2015. Excluding the gain on sale of assets, income from continuing operations would have been \$7.7 million for the three months ended September 30, 2015 compared to \$26.6 million for the same period in 2014. This decrease in income from continuing operations for the third quarter of 2015 was primarily due to soft market conditions for our vessels operating in the GoM and was partially offset by the full or partial-period contribution of ten vessels placed in service under our fifth OSV newbuild program since June 2014, as well as a decrease in operating and amortization expenses discussed above.

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Summarized financial information for the nine months ended September 30, 2015 and 2014, respectively, is shown below in the following table (in thousands, except percentage changes):

|   | Nine Months Ended<br>September 30, |           | Increase (Decrease) |             |    |
|---|------------------------------------|-----------|---------------------|-------------|----|
|   | 2015                               | 2014      | \$<br>Change        | %<br>Change |    |
| Revenues:                                       |                                    |           |                     |             |    |
| Domestic  | \$267,437                          | \$374,522 | \$(107,085)         | (28.6)      | )% |
| Foreign   | 119,914                            | 100,052   | 19,862              | 19.9        | %  |
|   | 387,351                            | 474,574   | (87,223)            | (18.4)      | )% |
| Operating expenses                              | 173,900                            | 216,411   | (42,511)            | (19.6)      | )% |
| Depreciation and amortization                   | 81,306                             | 85,914    | (4,608)             | (5.4)       | )% |
| General and administrative expenses             | 37,143                             | 40,392    | (3,249)             | (8.0)       | )% |
|   | 292,349                            | 342,717   | (50,368)            | (14.7)      | )% |
| Gain on sale of assets                          | 44,060                             | 161       | 43,899              | >100        | %  |
| Operating income                                | 139,062                            | 132,018   | 7,044               | 5.3         | %  |
| Interest expense                                | 29,895                             | 22,056    | 7,839               | 35.5        | %  |
| Interest income                                 | 988                                | 880       | 108                 | 12.3        | %  |
| Income tax expense                              | 41,679                             | 41,719    | (40)                | (0.1)       | )% |
| Income from continuing operations               | 69,492                             | 69,138    | 354                 | 0.5         | %  |
| Income from discontinued operations, net of tax | —                                  | 216       | (216)               | (100.0)     | )% |
| Net income                                      | \$69,492                           | \$69,354  | \$138               | 0.2         | %  |

#### Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Revenues. Revenues for the nine months ended September 30, 2015 decreased by \$87.2 million, or 18.4%, to \$387.4 million compared to the same period in 2014. Our weighted-average active operating fleet for the nine months ended September 30, 2015 and 2014 was 51 and 60 vessels, respectively. The decrease in revenues was primarily due to soft market conditions in the GoM, which led to our decision to stack 21 OSVs on various dates from October 2014 through September 2015. For the nine months ended September 30, 2015, we had an average of 15.1 vessels stacked compared to none in the prior-year period. This decrease in revenue was partially offset by \$43.7 million in revenue earned from the full or partial-period contribution of 13 vessels that were placed in service under our fifth OSV newbuild program since December 2013. Average new generation OSV dayrates were \$26,885 for the first nine months of 2015 compared to \$27,345 for the same period in 2014, a decrease of \$460, or 1.7%. Our new generation OSV utilization was 57.1% for the first nine months of 2015 compared to 81.0% for the same period in 2014. This decrease in utilization is primarily due to soft market conditions for high-spec OSVs operating in the GoM and the incremental vessels that were stacked during the current-year period. Our new generation OSVs incurred 219 days of aggregate downtime for regulatory drydockings and were stacked for an aggregate of 4,119 days during the first nine months of 2015. Excluding stacked vessel days, our new generation OSV effective utilization was 76.2% and 81.0% for the same periods, respectively. Domestic revenues decreased \$107.1 million from the year-ago period primarily due to lower dayrates earned by vessels operating in our fleet during the nine months ended September 30, 2015 and the stacking of vessels in late 2014 and the first nine months of 2015. Foreign revenues increased \$19.9 million primarily due to the full or partial-period contribution of ten OSVs and one MPSV that relocated to foreign regions on various dates in 2014. Foreign revenues for the first nine months of 2015 comprised 31.0% of our total revenues compared to 21.1% for the year-ago period.

Operating Expenses. Operating expenses were \$173.9 million, a decrease of \$42.5 million, or 19.6%, for the nine months ended September 30, 2015 compared to \$216.4 million for the same period in 2014. Operating expenses were driven lower by vessels that were removed from our active fleet count since late 2014, which resulted in a substantial reduction in mariner headcount. This decrease was partially offset by



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\$24.9 million of operating costs related to the full or partial-period contribution from vessels added to our fleet since December 2013. Aggregate cash operating expenses for our vessels are projected to be in the approximate annual range of \$223.9 million to \$228.9 million for the year ending December 31, 2015. The cash operating expense estimate above is exclusive of any additional repositioning expenses we may incur in connection with the potential relocation of more of our vessels into international markets or back to the GoM, and any customer-required cost-of-sales related to future contract fixtures that are typically recovered through higher dayrates.

**Depreciation and Amortization.** Depreciation and amortization was \$4.6 million, or 5.4%, lower for the nine months ended September 30, 2015 compared to the same period in 2014. Depreciation increased by \$9.1 million primarily due to the contribution of 13 vessels that were placed in service on various dates since December 2013. The depreciation increase was more than offset by a decrease in amortization expense of \$13.7 million, which was largely due to \$6.7 million of incremental amortization recorded for the accelerated regulatory drydocking of vessels during the first nine months of 2014. Depreciation and amortization expense is expected to continue to increase from current levels as the vessels under our current newbuild program are placed in service and when any newly constructed vessels undergo their initial 30-month and 60-month recertifications.

**General and Administrative Expense.** G&A expenses of \$37.1 million, or 9.6% of revenues, was \$3.2 million lower during the nine months ended September 30, 2015 compared to the same period in 2014. The decrease in G&A expenses was primarily due to lower shoreside compensation expense and, to a lesser extent, the cancellation of performance-based RSUs that did not achieve their performance vesting criteria.

**Gain on Sale of Assets.** During the first nine months of 2015, we completed the sale of four 250EDF class OSVs, the HOS Arrowhead, the HOS Black Powder, the HOS Eagleview and the HOS Westwind, to the U.S. Navy for cash consideration of \$152.0 million. The sale resulted in a pre-tax gain of approximately \$44.1 million (\$27.6 million after-tax or \$0.76 per diluted share). There was a nominal gain on sale of assets in the same period in 2014.

**Operating Income.** Operating income increased by \$7.0 million, or 5.3%, to \$139.1 million during the nine months ended September 30, 2015 compared to the same period in 2014 for the reasons discussed above. Operating income as a percentage of revenues was 35.9% for the nine months ended September 30, 2015 compared to 27.8% for the same period in 2014. Excluding the gain on sale of assets, our operating income for the first nine months of 2015 would have been \$95.0 million, or 24.5% of revenues.

**Interest Expense.** Interest expense increased \$7.8 million during the nine months ended September 30, 2015 compared to the same period in 2014, primarily due to capitalizing a lower percentage of interest compared to the prior-year period. During the nine months ended September 30, 2015, we recorded \$18.2 million of capitalized construction period interest, or roughly 37.8% of our total interest costs, compared to having capitalized \$25.9 million, or roughly 54.0% of our total interest costs, for the year-ago period.

**Interest Income.** Interest income was \$1.0 million during the nine months ended September 30, 2015, which was \$0.1 million higher compared to the same period in 2014. Our average cash balance decreased to \$266.0 million for the nine months ended September 30, 2015 compared to \$326.9 million for the same period in 2014. The average interest rate earned on our invested cash balances was 0.5% and 0.4% during the nine months ended September 30, 2015 and 2014, respectively. The decrease in average cash balance was primarily due to cash outflows associated with our fifth OSV newbuild program in 2014 and 2015 and lower revenue earned by active vessels operating in our fleet. These decreases were partially offset by cash inflows from the sale of four vessels to the U.S. Navy in 2015.

**Income Tax Expense.** Our effective tax rate was 37.5% and 37.6% for the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, our income tax expense primarily consisted of deferred taxes. Our income tax rate differs from the federal statutory rate primarily due to expected state tax liabilities and items not deductible for federal income tax purposes.

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Income from Continuing Operations. Operating performance increased by \$0.4 million for reported income from continuing operations of \$69.5 million for the nine months ended September 30, 2015 compared to the same period during 2014. Excluding the gain on sale of assets, income from continuing operations would have been \$41.9 million for the nine months ended September 30, 2015 compared to \$69.1 million for the same period in 2014. This decrease in income from continuing operations for the nine months ended September 30, 2015 was primarily driven by lower revenues due to soft market conditions discussed above that were partially offset by the gain on the sale of four vessels to the U.S. Navy in 2015.

Liquidity and Capital Resources

Our capital requirements have historically been financed with cash flows from operations, proceeds from issuances of our debt and common equity securities, borrowings under our credit facilities and cash received from the sale of assets. We require capital to fund on-going operations, remaining obligations under our expanded fifth OSV newbuild program, vessel recertifications, discretionary capital expenditures and debt service and may require capital to fund potential future vessel construction, retrofit or conversion projects, acquisitions or stock repurchases. The nature of our capital requirements and the types of our financing sources are not expected to change significantly for the remainder of 2015 and into 2016.

We have reviewed all of our debt agreements, as well as our liquidity position and projected future cash needs. Despite volatility in commodity markets, we remain confident in our current financial position, the strength of our balance sheet and the short- and long-term viability of our business model. To date, our liquidity has been impacted by such volatility through lower than normal cash flow from operations. However, including cash on-hand, we expect to generate sufficient cash flow from operations to cover all of our growth capital expenditures for the remaining seven HOSMAX vessels under construction, commercial-related capital expenditures, and all of our annually recurring cash debt service, maintenance capital expenditures and cash income taxes through the completion of the newbuild program, as well as discretionary share repurchases from time to time, without ever having to use our currently undrawn revolving credit facility. We have three tranches of funded unsecured debt outstanding that mature in fiscal years 2019, 2020 and 2021, respectively. While we have an authorized share repurchase program, we will continue to prioritize our cash usage appropriate to the current market cycle.

As of September 30, 2015, we had total cash and cash equivalents of \$302.6 million and a \$300 million revolving credit facility, expandable up to \$500 million, which is undrawn as of September 30, 2015.

On February 6, 2015, we amended and extended the maturity of our existing revolving credit facility to February 2020, provided that, if the 2019 convertible senior notes remain outstanding on March 1, 2019, the Company is required to maintain a specified minimum liquidity level until after the redemption or refinancing of the convertible senior notes, which mature on September 1, 2019. As of September 30, 2015, we had posted letters of credit for \$0.5 million and had \$299.5 million of credit available under our revolving credit facility. The full undrawn credit amount of such facility is available for all uses of proceeds, including working capital, if necessary. However, the primary intended use of the facility is the potential future construction or acquisition of assets that generate additional EBITDA.

On October 28, 2014, our Board of Directors authorized us to repurchase up to \$150 million in shares of our common stock from time to time, \$25 million of which was used to buy-back 891,396 shares during the fourth quarter of 2014. There were no such repurchases during the nine months ended September 30, 2015. Any future repurchases under this program are expected to be funded from our cash on-hand, cash flow from operations and/or cash proceeds from the divestiture of non-core assets.

Although we expect to continue generating positive working capital through our operations, events beyond our control, such as a further significant decline in commodity prices, renewed regulatory-driven delays in the issuance of drilling plans and permits in the GoM, further declines in expenditures for exploration, development and production activity, any extended reduction in domestic consumption of refined petroleum products and other reasons discussed under the "Forward Looking Statements" on page ii and the Risk Factors stated in Item 1A of our Annual Report on Form 10-K, may affect our financial condition, results of operations or cash flows. Should such need for additional financing arise, we may not be able to access the capital markets on





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attractive terms at that time or otherwise obtain sufficient capital to meet our maturing debt obligations or finance growth opportunities that may arise. We will continue to closely monitor our liquidity position, as well as the state of the global capital and credit markets.

## Cash Flows

**Operating Activities.** We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities were \$184.5 million for the nine months ended September 30, 2015 and \$119.7 million for the same period in 2014. Operating cash flows for the first nine months of 2015 were favorably impacted by an increase in customer collections of outstanding accounts receivable balances combined with lower cash outflows for regulatory drydocking expenses compared to the year-ago period. Operating cash flows for the first nine months of 2014 included \$39.6 million of costs related to regulatory recertifications for our vessels.

**Investing Activities.** Net cash used in investing activities was \$63.7 million for the nine months ended September 30, 2015 compared to \$319.7 million for the same period in 2014. Cash used during the first nine months of 2015 consisted of construction costs incurred for our fifth OSV newbuild program partially offset by proceeds from the sale of four 250EDF class OSVs to the U.S. Navy. Cash used in 2014 primarily consisted of construction costs incurred for our fifth OSV newbuild program.

**Financing Activities.** Net cash used in financing activities was nominal for the nine months ended September 30, 2015 compared to cash provided by financing activities of \$2.4 million for the same period in 2014. Net cash used in financing activities for the nine months ended September 30, 2015 primarily resulted from deferred financing costs related to the amendment and extension of our existing \$300 million revolving credit facility offset by net proceeds from common shares issued pursuant to our employee stock-based incentive compensation plans. Net cash provided by financing activities for the nine months ended September 30, 2014 primarily resulted from net proceeds from common shares issued pursuant to our employee stock-based incentive compensation plan.

## Contractual Obligations

## Debt

As of September 30, 2015, the Company had the following outstanding long-term debt (in thousands, except effective interest rate):

|  | Total Debt  | Effective Interest Rate | Semi-Annual Cash Interest Payment | Payment Dates           |
|--|-------------|-------------------------|-----------------------------------|-------------------------|
| 5.875% senior notes due 2020 (1)   | \$375,000   | 6.08 %                  | \$ 11,000                         | April 1 and October 1   |
| 5.000% senior notes due 2021 (1)   | 450,000     | 5.21 %                  | 11,300                            | March 1 and September 1 |
| 1.500% convertible senior notes due 2019, net of original issue discount of \$44,141 | 255,859     | 6.23 %                  | 2,300                             | March 1 and September 1 |
|  | \$1,080,859 |                         |                                   |                         |

The senior notes do not require any payments of principal prior to their stated maturity dates, but pursuant to the indentures under which the 2020 and 2021 senior notes were issued, we would be required to make offers to (1) purchase such senior notes upon the occurrence of specified events, such as certain asset sales or a change in control.

On February 6, 2015, we amended and extended our revolving credit facility to extend the maturity date, modify covenants and reduce the collateral coverage of such facility. The \$300.0 million revolving credit facility remains undrawn as of November 6, 2015. With the revolving credit facility, we have the option of borrowing at a variable rate of interest equal to (i) London Interbank Offered Rate, or LIBOR, plus a margin of 2.0% to 3.0% or (ii) the greatest of the Prime Rate, the Federal Funds Effective Rate plus 1/2 of 1% or LIBOR, plus 1.0%; plus in each case an applicable margin. The applicable margin for each base rate is determined by a pricing grid, which is based on a new total debt-to-capitalization ratio, as defined in the credit agreement governing the



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revolving credit facility, as amended. The applicable LIBOR margin for the amended revolving credit facility ranges from 200 to 300 basis points. Unused commitment fees are payable quarterly at the annual rate of 37.5 to 50.0 basis points of the unused portion of the borrowing base of the new revolving credit facility, based on the defined total debt-to-capitalization ratio. For additional information with respect to our revolving credit facility, our 2020 senior notes, our 2021 senior notes and our 2019 convertible senior notes, please refer to Note 5 of our consolidated financial statements included herein.

The credit agreement governing the revolving credit facility and the indentures governing our 2020 and 2021 senior notes impose certain operating and financial restrictions on us. Such restrictions affect, and in many cases limit or prohibit, among other things, our ability to incur additional indebtedness, make capital expenditures, redeem equity, create liens, sell assets and make dividend or other restricted payments. Based on our financial ratios for the nine months ended September 30, 2015, the full amount of the undrawn borrowing base under our revolving credit facility is available to us for all uses of proceeds, including working capital, if necessary. For the nine months ended September 30, 2015, we were in compliance with all of our debt covenants. We continuously review our debt covenants and report to our lenders our compliance with financial ratios on a quarterly basis. We also consider such covenants in evaluating transactions that will have an effect on our financial ratios.

Capital Expenditures and Related Commitments

The following table sets forth the amounts incurred for our fifth OSV newbuild program, before construction period interest, during the three and nine months ended September 30, 2015 and since such program's inception, respectively, as well as the estimated total project costs for our current expansion program (in millions):

|                                 | Three Months<br>Ended<br>September 30,<br>2015 | Nine Months<br>Ended<br>September 30,<br>2015 | Incurred Since<br>Inception | Estimated<br>Program<br>Totals (1) | Projected<br>Delivery<br>Dates (1) |
|---------------------------------|--|---|-----------------------------|------------------------------------|------------------------------------|
| Growth Capital<br>Expenditures: |  |   |                             |                                    |                                    |
| OSV newbuild program #5<br>(2)  | \$27.7   | \$137.0                                       | \$1,169.4                   | \$1,265.0                          | 2Q2013-4Q2016                      |

Estimated Program Totals and Projected Delivery Dates are based on internal estimates and are subject to change due to delays and possible cost overruns inherent in any large construction project, including, without limitation, shortages of equipment, lack of shipyard availability, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, the inability to obtain necessary certifications and approvals and (1) shortages of materials, component equipment or skilled labor. All of the above historical and budgeted capital expenditure project amounts for our newbuild program represent estimated cash outlays and do not include any allocation of capitalized construction period interest. Projected delivery dates correspond to the first and last vessels that are contracted with shipyards for construction and delivery under our currently active program, respectively.

Our fifth OSV newbuild program consists of vessel construction contracts with three domestic shipyards to build four 300 class OSVs, five 310 class OSVs, ten 320 class OSVs and five 310 class MPSVs. As of September 30, (2)2015, we had placed 17 vessels in service under such program. The remaining seven vessels under this 24-vessel domestic newbuild program are currently expected to be placed in service as follows: three during the remainder of 2015 and four during 2016.

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The following table summarizes the costs incurred, prior to the allocation of construction period interest, for maintenance and other capital expenditures, for the three and nine months ended September 30, 2015 and 2014, respectively, and a forecast for fiscal 2015 (in millions):

|   | Three Months Ended        |             | Nine Months Ended         |             | Year Ended December 31, 2015 Forecast |
|---|---------------------------|-------------|---------------------------|-------------|---------------------------------------|
|   | September 30, 2015 Actual | 2014 Actual | September 30, 2015 Actual | 2014 Actual |                                       |
| Maintenance and Other Capital Expenditures: |                           |             |                           |             |                                       |
| Maintenance Capital Expenditures            |                           |             |                           |             |                                       |
| Deferred drydocking charges (1)             | \$5.7                     | \$10.0      | \$12.0                    | \$39.6      | \$13.4                                |
| Other vessel capital improvements (2)       | 3.1                       | 2.9         | 7.1                       | 20.4        | 10.5                                  |
|   | 8.8                       | 12.9        | 19.1                      | 60.0        | 23.9                                  |
| Other Capital Expenditures                  |                           |             |                           |             |                                       |
| 200 class OSV retrofit program              | —                         | —           | —                         | 0.1         | —                                     |
| Commercial-related vessel improvements (3)  | 8.1                       | 8.4         | 40.3                      | 21.4        | 51.5                                  |
| Miscellaneous non-vessel additions (4)      | 1.3                       | 1.6         | 15.9                      | 2.8         | 16.9                                  |
|   | 9.4                       | 10.0        | 56.2                      | 24.3        | 68.4                                  |
| Total                                       | \$18.2                    | \$22.9      | \$75.3                    | \$84.3      | \$92.3                                |

- (1) Deferred drydocking charges for 2015 include the projected recertification costs for six OSVs.
- (2) Other vessel capital improvements include costs for discretionary vessel enhancements, which are typically incurred during a planned drydocking event to meet customer specifications.
- (3) Commercial-related vessel improvements include items, such as the addition of cranes, ROVs, helidecks, living quarters and other specialized vessel equipment; the modification of vessel capacities or capabilities, such as DP upgrades and mid-body extensions, which costs are typically included in and offset, in whole or in part, by higher dayrates charged to customers.
- (4) Non-vessel capital expenditures are primarily related to information technology and shoreside support initiatives.

## Forward Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as contemplated by the Private Securities Litigation Reform Act of 1995, in which the Company discusses factors it believes may affect its performance in the future. Forward-looking statements are all statements other than historical facts, such as statements regarding assumptions, expectations, beliefs and projections about future events or conditions. You can generally identify forward-looking statements by the appearance in such a statement of words like “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “remain,” “should,” “will” comparable words or the negative of such words. The accuracy of the Company’s assumptions, expectations, beliefs and projections depends on events or conditions that change over time and are thus susceptible to change based on actual experience, new developments and known and unknown risks. The Company gives no assurance that the forward-looking statements will prove to be correct and does not undertake any duty to update them. The Company’s actual future results might differ from the forward-looking statements made in this Quarterly Report on Form 10-Q for a variety of reasons, including significant and sustained or additional declines in oil and natural gas prices; a sustained weakening of demand for the Company’s services; unplanned customer suspensions, cancellations, rate reductions or non-renewals of vessel charters, management contracts or failures to finalize commitments to charter or manage vessels; further reductions in capital spending budgets by customers; the inability to accurately predict vessel utilization levels and dayrates; fewer than anticipated deepwater and ultra-deepwater drilling units operating in the GoM or other regions where the Company operates; the effect of inconsistency by the United States government in the pace of issuing drilling permits and plan approvals in the GoM or other drilling regions; the Company’s inability to

successfully complete the remainder of its current vessel newbuild program on-time and on-budget, which involves the construction and integration of highly complex vessels and systems; the inability to successfully market the vessels that the Company owns, is constructing, or might acquire; the government's cancellation or non-renewal of the operations and maintenance contracts for vessels; an oil spill or other significant event in the United States or another offshore drilling region that

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could have a broad impact on deepwater and other offshore energy exploration and production activities, such as the suspension of activities or significant regulatory responses; the imposition of laws or regulations that result in reduced exploration and production activities or that increase the Company's operating costs or operating requirements; environmental litigation that impacts customer plans or projects; disputes with customers; bureaucratic, administrative or operating barriers that delay vessels in foreign markets from going on-hire or result in contractual penalties or deductions imposed by foreign customers; industry risks; the impact stemming from the reduction of Petrobras' announced plans for or administrative barriers to exploration and production activities in Brazil; less than expected growth in Mexican offshore activities; age or other restrictions imposed on our vessels by customers; unanticipated difficulty in effectively competing in or operating in international markets; less than anticipated subsea infrastructure and field development demand in the GoM and other markets affecting our MPSVs; the level of fleet additions by the Company and its competitors that could result in vessel over capacity in the markets in which the Company competes; economic and political risks; weather-related risks; the shortage of or the inability to attract and retain qualified personnel, as needed, including vessel personnel for active and newly constructed vessels; any success in unionizing the Company's U.S. fleet personnel; regulatory risks; the repeal or administrative weakening of the Jones Act or changes in the interpretation of the Jones Act related to the U.S. citizenship qualification; drydocking delays and cost overruns and related risks; vessel accidents, pollution incidents or other events resulting in lost revenue, fines, penalties or other expenses that are unrecoverable from insurance policies or other third parties; unexpected litigation and insurance expenses; or fluctuations in foreign currency valuations compared to the U.S. dollar and risks associated with expanded foreign operations, such as non-compliance with or the unanticipated effect of tax laws, customs laws, immigration laws, or other legislation that result in higher than anticipated tax rates or other costs or the inability to repatriate foreign-sourced earnings and profits. In addition, the Company's future results may be impacted by adverse economic conditions, such as inflation, deflation, or lack of liquidity in the capital markets, that may negatively affect it or parties with whom it does business resulting in their non-payment or inability to perform obligations owed to the Company, such as the failure of customers to fulfill their contractual obligations or the failure by individual banks to provide funding under the Company's credit agreement, if required. Further, the Company can give no assurance regarding when and to what extent it will effect share repurchases. Should one or more of the foregoing risks or uncertainties materialize in a way that negatively impacts the Company, or should the Company's underlying assumptions prove incorrect, the Company's actual results may vary materially from those anticipated in its forward-looking statements, and its business, financial condition and results of operations could be materially and adversely affected. Additional factors that you should consider are set forth in detail in the "Risk Factors" section of the Company's most recent Annual Report on Form 10-K as well as other filings the Company has made and will make with the Securities and Exchange Commission which, after their filing, can be found on the Company's website, [www.hornbeckoffshore.com](http://www.hornbeckoffshore.com).

Item 3—Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the market risk disclosures set forth in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2014.

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Item 4—Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

None.

Item 1A—Risk Factors

There were no changes to the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 2—Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3—Defaults Upon Senior Securities

None.

Item 4—Mine Safety Disclosures

None.

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Item 5—Other Information

Pursuant to the terms of the Company's credit agreement, Hornbeck Offshore International, LLC, or HOI, a subsidiary of the Company, was required to execute a guaranty of the indebtedness under the credit agreement and pledge certain equity securities of its foreign subsidiary because such foreign subsidiary held assets in excess of a specified dollar amount. In addition to providing such guaranty and pledge, HOI was required to execute supplemental indentures to the indentures governing the Company's 2019 convertible senior notes, its 2020 senior notes and its 2021 senior notes, guaranteeing such notes.

Glossary of Terms Currently Used in Our SEC Filings

"2019 convertible senior notes" means the Company's 1.500% convertible senior notes due 2019;

"2020 senior notes" means the Company's 5.875% senior notes due 2020;

"2021 senior notes" means the Company's 5.000% senior notes due 2021;

"AHTS" means anchor-handling towing supply;

"ASC" means Financial Accounting Standards Board Accounting Standards Codification;

"average dayrate" means, when referring to OSVs or MPSVs, average revenue per day, which includes charter hire, crewing services and net brokerage revenues, based on the number of days during the period that the OSVs or MPSVs, as applicable, generated revenue. For purposes of vessel brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost of in-chartering third-party equipment paid by customers;

"BOEM" means the Bureau of Ocean Energy Management;

"BSEE" means the Bureau of Safety and Environmental Enforcement;

"cabotage laws" means laws pertaining to the privilege of operating vessels in the navigable waters of a nation;

"coastwise trade" means the transportation of merchandise or passengers by water, or by land and water, between points in the United States, either directly or via a foreign port;

"continental shelf" or "shelf" means offshore areas, generally less than 1,000' in depth;

"conventional" means, when referring to OSVs, vessels that are at least 30 years old, are generally less than 200' in length or carry less than 1,500 deadweight tons of cargo when originally built and primarily operate, when active, on the continental shelf;

"deepwater" means offshore areas, generally 1,000' to 5,000' in depth;

"Deepwater Horizon incident" means the subsea blowout and resulting oil spill at the Macondo well site in the GoM in April 2010 and subsequent sinking of the Deepwater Horizon drilling rig;

"deep-well" means a well drilled to a true vertical depth of 15,000' or greater, regardless of whether the well was drilled in the shallow water of the Outer Continental Shelf or in the deepwater or ultra-deepwater;

"DOI" means U.S. Department of the Interior and all its various sub-agencies, including effective October 1, 2011 the Bureau of Ocean Energy Management ("BOEM"), which handles offshore leasing, resource evaluation, review and administration of oil and gas exploration and development plans, renewable energy development, National Environmental Policy Act analysis and environmental studies, and the Bureau of Safety and Environmental Enforcement ("BSEE"), which is responsible for the safety and enforcement functions of offshore oil and gas operations, including the development and enforcement of safety and environmental regulations, permitting of offshore exploration, development and production activities, inspections, offshore regulatory programs, oil spill response and newly formed training and environmental compliance programs; BOEM and BSEE being successor entities to the Bureau of Ocean Energy Management, Regulation and Enforcement ("BOEMRE"), which effective June 2010 was the successor entity to the Minerals Management Service;

"domestic public company OSV peer group" includes Gulfmark Offshore, Inc. (NYSE:GLF), SEACOR Holdings Inc. (NYSE:CKH) and Tidewater Inc. (NYSE:TDW);



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“DP-1”, “DP-2” and “DP-3” mean various classifications of dynamic positioning systems on new generation vessels to automatically maintain a vessel’s position and heading through anchor-less station-keeping;

“DWT” means deadweight tons;

“effective dayrate” means the average dayrate multiplied by the average utilization rate;

“EIA” means the U.S. Energy Information Administration;

“EPA” means United States Environmental Protection Agency;

“flotel” means on-vessel accommodations services, such as lodging, meals and office space;

“GAAP” means United States generally accepted accounting principles;

“GoM” means the U.S. Gulf of Mexico;

“high-specification” or “high-spec” means, when referring to new generation OSVs, vessels with cargo-carrying capacity of greater than 2,500 DWT (i.e., 240 class OSV notations or higher), and dynamic-positioning systems with a DP-2 classification or higher; and, when referring to jack-up drilling rigs, rigs capable of working in 400-ft. of water depth or greater, with hook-load capacity of 2,000,000 lbs. or greater, with cantilever reach of 70-ft. or greater; and minimum quarters capacity of 150 berths or more and dynamic-positioning systems with a DP-2 classification or higher;

“IHS-CERA” means the division of IHS Inc. focused on providing knowledge and independent analysis on energy markets, geopolitics, industry trends and strategy;

“IHS-Petrodata” means the division of IHS Inc. focused on providing data, information, and market intelligence to the offshore energy industry;

“IRM” means inspection, repair and maintenance, also known as “IMR,” or inspection, maintenance and repair, depending on regional preference;

“Jones Act” means the U.S. cabotage laws known as the Merchant Marine Act of 1920, as amended;

“Jones Act-qualified” means, when referring to a vessel, a U.S.-flagged vessel qualified to engage in domestic coastwise trade under the Jones Act;

“long-term contract” means a time charter of one year or longer in duration at inception;

“Macondo” means the well site location in the deepwater GoM where the Deepwater Horizon incident occurred as well as such incident itself;

“MPSV” means a multi-purpose support vessel;

“MSRC” means the Marine Spill Response Corporation;

“new generation” means, when referring to OSVs, modern, deepwater-capable vessels subject to the regulations promulgated under the International Convention on Tonnage Measurement of Ships, 1969, which was adopted by the United States and made effective for all U.S.-flagged vessels in 1992 and foreign-flagged equivalent vessels;

“OSV” means an offshore supply vessel, also known as a “PSV,” or platform supply vessel, depending on regional preference;

“PEMEX” means Petroleos Mexicanos;

“Petrobras” means Petroleo Brasileiro S.A.;

“public company OSV peer group” means SEACOR Holdings Inc. (NYSE:CKH), GulfMark Offshore, Inc. (NYSE:GLF), Tidewater Inc. (NYSE:TDW), Farstad Shipping (NO:FAR), Solstad Offshore (NO:SOFF), Deep Sea Supply (NO:DESSC), DOF ASA (NO:DOF), Siem Offshore (NO:SIOFF), Groupe Bourbon SA (GBB:FP), Havila Shipping ASA (NO:HAVI), Eidesvik Offshore (NO:EIOF) and/or Ezra Holdings Ltd (SI:EZRA);

“ROV” means a remotely operated vehicle; and

“ultra-deepwater” means offshore areas, generally more than 5,000’ in depth.

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Item 6—Exhibits

Exhibit Index

| Exhibit<br>Number | Description of Exhibit  |
|-------------------|---|
| **2.1             | — Asset Purchase Agreement dated as of July 22, 2013, between Hornbeck Offshore Transportation, LLC and Genesis Marine, LLC (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed July 25, 2013).   |
| 3.1               | — Second Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company’s Form 10-Q for the quarter ended March 31, 2005).   |
| 3.2               | — Fourth Restated Bylaws of the Company adopted June 30, 2004 (incorporated by reference to Exhibit 3.3 to the Company’s Form 10-Q for the quarter ended June 30, 2004).  |
| 3.3               | — Amendment No. 1 to Fourth Restated Bylaws of the Company adopted June 21, 2012 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed June 27, 2012).  |
| 3.4               | — Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on July 2, 2013 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed July 3, 2013).  |
| 4.1               | — Specimen stock certificates for the Company’s common stock, \$0.01 par value (for U.S. citizens and non-U.S. citizens) (incorporated by reference to Exhibit 4.4 to the Company’s Form 8-A/A filed July 3, 2013, Registration No. 001-32108).   |
| 4.2               | — Indenture, dated March 16, 2012 among Hornbeck Offshore Services, Inc., as issuer, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (including form of 5.875% Senior Notes due 2020) (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed March 21, 2012).                    |
| 4.3               | — Indenture dated as of August 13, 2012 by and among Hornbeck Offshore Services, Inc., the guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (including form of 1.500% Convertible Senior Notes due 2019) (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on August 13, 2012). |
| 4.4               | — Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on August 13, 2012).  |
| 4.5               | — Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.3 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |
| 4.6               | — Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |

- 4.7 — Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on August 13, 2012).

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| Exhibit<br>Number | Description of Exhibit   |
|-------------------|--|
| 4.8               | — Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.6 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |
| 4.9               | — Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.7 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |
| 4.10              | — Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.8 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |
| 4.11              | — Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.9 to the Company’s Current Report on Form 8-K filed on August 13, 2012).  |
| 4.12              | — Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.10 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |
| 4.13              | — Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.11 to the Company’s Current Report on Form 8-K filed on August 13, 2012).   |
| 4.14              | — Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.12 to the Company’s Current Report on Form 8-K filed on August 13, 2012).  |
| 4.15              | — Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.13 to the Company’s Current Report on Form 8-K filed on August 13, 2012).  |
| 4.16              | — Indenture governing the 5.000% Notes, dated March 28, 2013 among Hornbeck Offshore Services, Inc., as issuer, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (including form of 5.000% Senior Notes due 2021) (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on March 28, 2013).   |
| 4.17              | — Rights Agreement dated as of July 1, 2013 between Hornbeck Offshore Services, Inc. and Computershare Inc., as Rights Agent, which includes as Exhibit A the Amended and Restated Certificate of Designation of Series A Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights to Purchase Shares (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed July 3, 2013). |
| *4.18             | —  |

First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 1.5% Convertible Senior Notes due 2019).

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| Exhibit Number | Description of Exhibit   |
|----------------|--|
| *4.19          | — First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.875% Senior Notes due 2020). |
| *4.20          | — First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.000% Senior Notes due 2021). |
| *31.1          | — Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *31.2          | — Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *32.1          | — Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| *32.2          | — Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| *101           | — Interactive Data File  |

\* Filed herewith.

\*\* Schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish supplementally a copy of any of the omitted schedules or exhibits to the Securities and Exchange Commission upon request.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

Hornbeck Offshore Services, Inc.

Date: November 6, 2015

/s/ JAMES O. HARP, JR.

James O. Harp, Jr.

Executive Vice President and Chief Financial Officer