

HORNBECK OFFSHORE SERVICES INC /LA

Form 10-Q

November 09, 2005

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2005

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)*

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

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)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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, 2005 was 27,120,316.

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2005

TABLE OF CONTENTS

<u>PART I FINANCIAL INFORMATION</u>	1
Item 1 <u>Financial Statements</u>	1
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>General</u>	13
<u>Critical Accounting Policies</u>	15
<u>Results of Operations</u>	16
<u>Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004</u>	19
<u>Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004</u>	21
<u>Liquidity and Capital Resources</u>	23
<u>Contractual Obligations</u>	27
<u>Forward Looking Statements</u>	28
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4 <u>Controls and Procedures</u>	30
<u>PART II OTHER INFORMATION</u>	31
Item 1 <u>Legal Proceedings</u>	31
Item 2 <u>Unregistered Sales of Equity Securities Use of Proceeds</u>	31
Item 3 <u>Defaults Upon Senior Securities</u>	31
Item 4 <u>Submission of Matters to a Vote of Security Holders</u>	31
Item 5 <u>Other Information</u>	31
Item 6 <u>Exhibits</u>	31
<u>SIGNATURE</u>	33
<u>EXHIBIT INDEX</u>	34

Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Financial Statements****HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	September 30,	December 31,
	2005	2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,496	\$ 54,301
Accounts receivable, net of allowance for doubtful accounts of \$614 and \$407, respectively	29,913	22,028
Prepaid insurance	2,930	530
Property taxes receivable	2,880	2,936
Other current assets	3,129	1,934
Total current assets	53,348	81,729
Property, plant, and equipment, net	444,246	361,219
Goodwill, net	2,628	2,628
Deferred charges, net	14,276	14,863
Other assets	289	132
Total assets	\$ 514,787	\$ 460,571
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 11,487	\$ 4,845
Accrued interest	4,887	2,391
Accrued payroll, insurance and benefits	6,183	3,991
Deferred revenue	2,290	1,723
Current portion of long-term debt, net of original issue discount of \$97		15,449
Other accrued liabilities	1,418	774
Total current liabilities	26,265	29,173
Revolving credit facility	21,000	
Long-term debt	225,000	225,000
Deferred tax liabilities, net	32,920	22,247
Other liabilities	637	1,247
Total liabilities	305,822	277,667
Stockholders' equity:		
Preferred stock: \$0.01 par value; 5,000 shares authorized, no shares issued and outstanding		

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

Common stock: \$0.01 par value; 100,000 shares authorized, 21,020 and 20,822 shares

issued and outstanding, respectively	210	208
Additional paid-in capital	166,937	163,264
Retained earnings	41,760	19,400
Accumulated other comprehensive income	58	32
	<hr/>	<hr/>
Total stockholders' equity	208,965	182,904
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 514,787	\$ 460,571
	<hr/>	<hr/>

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

Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Revenues	\$ 46,462	\$ 32,892	\$ 125,449	\$ 94,526
Costs and expenses:				
Operating expenses	16,577	14,066	48,044	42,113
Depreciation	5,346	4,408	14,556	12,963
Amortization	2,035	1,642	5,431	3,913
General and administrative expenses	5,714	3,537	14,286	9,829
	<u>29,672</u>	<u>23,653</u>	<u>82,317</u>	<u>68,818</u>
Operating income	16,790	9,239	43,132	25,708
Other income (expense):				
Loss on early extinguishment of debt			(1,698)	
Gain on sale of assets	829		1,901	
Interest income	153	107	395	213
Interest expense	(3,112)	(4,089)	(8,550)	(13,890)
Other income, net	47	28	104	24
	<u>14,707</u>	<u>5,285</u>	<u>35,284</u>	<u>12,055</u>
Income before income taxes	14,707	5,285	35,284	12,055
Income tax expense	(5,309)	(1,982)	(12,924)	(4,482)
	<u>\$ 9,398</u>	<u>\$ 3,303</u>	<u>\$ 22,360</u>	<u>\$ 7,573</u>
Net income	\$ 9,398	\$ 3,303	\$ 22,360	\$ 7,573
Basic earnings per common share	\$ 0.45	\$ 0.16	\$ 1.07	\$ 0.40
Diluted earnings per common share	\$ 0.44	\$ 0.15	\$ 1.05	\$ 0.39
Weighted average basic shares outstanding	20,954	20,802	20,877	18,834
Weighted average diluted shares outstanding	21,455	21,383	21,338	19,386

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

Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(DOLLARS IN THOUSANDS)

	Nine Months Ended September 30,	
	2005	2004
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 22,360	\$ 7,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,556	12,963
Amortization	5,431	3,913
Provision for bad debts	207	(90)
Deferred tax expense	12,924	4,482
Gain on sale of assets	(1,901)	
Equity income from investment	(135)	(31)
Loss on early extinguishment of debt	1,698	
Amortization of financing costs	538	1,166
Changes in operating assets and liabilities:		
Accounts receivable	(8,092)	(3,395)
Prepaid insurance and other current assets	(3,640)	434
Deferred drydocking charges	(4,898)	(7,157)
Accounts payable	7,955	120
Accrued liabilities and other liabilities	2,723	(686)
Accrued interest	2,496	(4,666)
Net cash provided by operating activities	<u>52,222</u>	<u>14,626</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions and retrofit of tugs and tank barges	(14,219)	(6,500)
Acquisitions and retrofit of OSVs	(30,481)	(3,500)
Construction of tugs and tank barges	(46,319)	(24,849)
Construction of OSVs and conversion of MPSVs	(4,162)	(2,433)
Net proceeds from the sale of vessels	4,347	
Vessel capital expenditures	(4,035)	(5,037)
Non-vessel capital expenditures	(2,167)	(903)
Net cash used in investing activities	<u>(97,036)</u>	<u>(43,222)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior notes	(15,546)	
Redemption premium on retirement of debt	(1,435)	
Net proceeds from (payments on) borrowings under revolving credit facility	21,000	(40,000)
Deferred financing costs	(460)	(107)
Gross proceeds from initial public offering		79,643
Payments for initial public offering costs		(7,682)
Net cash proceeds from other shares issued	1,423	1,330

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

Net cash provided by financing activities	4,982	33,184
Effects of exchange rate changes on cash	27	16
Net increase (decrease) in cash and cash equivalents	(39,805)	4,604
Cash and cash equivalents at beginning of period	54,301	12,899
Cash and cash equivalents at end of period	\$ 14,496	\$ 17,503
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Interest paid	\$ 8,418	\$ 18,672

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

Table of Contents**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. 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 financial statements should be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K, as amended by Form 10-K/A, of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the Company) for the year ended December 31, 2004. The results of operations for the three month and nine month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. Certain amounts reported in prior periods have been reclassified to conform to the 2005 presentation.

The consolidated balance sheet at December 31, 2004 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

2. Earnings Per Share

Basic earnings per share of common stock was calculated by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock was calculated by dividing net income by the weighted average number of common shares outstanding during the period plus the effect of dilutive stock options. 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 provides details regarding the Company's earnings per share (in thousands, except for per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	\$ 9,398	\$ 3,303	\$ 22,360	\$ 7,573
Weighted average number of shares of common stock outstanding (1)	20,954	20,802	20,877	18,834
Add: Net effect of dilutive stock options (2)	501	581	461	552
Adjusted weighted average number of shares of common stock outstanding	21,455	21,383	21,338	19,386
Earnings per common share:				

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

Basic	\$ 0.45	\$ 0.16	\$ 1.07	\$ 0.40
Diluted	\$ 0.44	\$ 0.15	\$ 1.05	\$ 0.39

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

-
- (1) On October 5, 2005, we closed an underwritten public offering of 6,100 shares of our common stock at a price to the public of \$35.35 per share.
- (2) Stock options representing rights to acquire 5 and 354 shares of common stock for the three months ended September 30, 2005, and September 30, 2004, respectively, were excluded from the calculation of diluted earnings per share, because the effect was antidilutive. Stock options representing rights to acquire 34 and 356 shares of common stock for the nine months ended September 30, 2005, and September 30, 2004, respectively, were excluded from the calculation of diluted earnings per share, because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common stock for the period.

3. Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board, or FASB, issued FASB Statement No. 123 (revised 2004), Share-Based Payment, or SFAS 123R, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, or SFAS 123. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on the Company's results of operations, although it will have no impact on its overall financial condition. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 5 to the Company's unaudited consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current GAAP literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized for such excess tax deductions was approximately \$1.6 million for the nine months ended September 30, 2005. On April 14, 2005, the Securities and Exchange Commission, or SEC, announced amended compliance dates for SFAS 123R. The SEC previously required companies to adopt this standard no later than July 1, 2005, but the new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, that begins after June 15, 2005. The Company will not be required to report under SFAS 123R until the quarter ending March 31, 2006 and does not currently intend to adopt this standard for reporting prior to such time. See Note 5 of these unaudited consolidated financial statements for further discussion of the Company's Incentive Compensation Plan.

4. Long-Term Debt

Senior Notes

On July 24, 2001, the Company issued \$175.0 million in aggregate principal amount of 10.625% senior notes, or old senior notes. The Company realized net proceeds of

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately \$165.0 million, a substantial portion of which was used to repay and fully extinguish all of the Company's then-existing credit facilities. The old senior notes were due to mature on August 1, 2008 and required semi-annual interest payments at an annual rate of 10.625% on February 1 and August 1 of each year until maturity. The effective interest rate on the old senior notes was 11.18%. No principal payments were due until maturity. On November 3, 2004, the Company commenced a cash tender offer for all of the old senior notes. Old senior notes totaling approximately \$159.5 million, or 91% of the notes outstanding, were validly tendered during the designated tender period and repurchased during 2004. The remaining \$15.5 million of old senior notes were redeemed on January 14, 2005. A loss on early extinguishment of debt for the old senior notes of approximately \$22.4 million and \$1.7 million was recorded during the fourth quarter 2004 and the first quarter of 2005, respectively. These losses include the tender offer costs, the write-off of unamortized financing costs and original issue discount, and a bond redemption premium.

On November 23, 2004, the Company issued in a private placement \$225.0 million in aggregate principal amount of 6.125% senior notes, or new senior notes. The new senior notes were subsequently exchanged on March 7, 2005 for senior notes with substantially similar terms, except that the issuance of the senior notes issued in the exchange offer was registered under the Securities Exchange Act of 1933. The net proceeds to the Company from the offering were approximately \$219.0 million, net of transaction costs. The Company used \$198.0 million of the proceeds to repurchase or redeem all of the old senior notes. The \$198.0 million comprised the total consideration paid for the old senior notes, including related tender offer costs, consent fees, and bond redemption premium required to be paid to holders of the old senior notes. The residual proceeds were used for the acquisition, construction and retrofit of vessels. The new senior notes mature on December 1, 2014 and require semi-annual interest payments at an annual rate of 6.125% on June 1 and December 1 of each year until maturity. The effective interest rate on the new senior notes is 6.38%. No principal payments are due until maturity. The new senior notes are unsecured senior obligations and rank equally in right of payment with other existing and future senior indebtedness and senior in right of payment to any subordinated indebtedness that may be incurred by the Company in the future. The new senior notes are guaranteed by certain of the Company's subsidiaries. The guarantees are full and unconditional, joint and several, and all of the Company's non-guarantor subsidiaries are minor as defined in SEC regulations. Hornbeck Offshore Services, Inc., as the parent company issuer of the new senior notes, has no independent assets or operations. There are no significant restrictions on the Company's ability or the ability of any guarantor to obtain funds from its subsidiaries by such means as a dividend or loan, except for certain restrictions contained in the Company's revolving credit facility restricting the payment of dividends by the Company's two principal subsidiaries. The Company may, at its option, redeem all or part of the new senior notes from time to time at specified redemption prices and subject to certain conditions required by the indenture. The Company is permitted under the terms of the indenture to incur additional indebtedness in the future, provided that certain financial conditions set forth in the indenture are satisfied by the Company.

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revolving Credit Facility

Effective February 13, 2004, the Company amended and restated its senior secured revolving credit facility to increase its size to \$100.0 million and extend its maturity to February 13, 2009. The borrowing base under the facility is currently \$60.0 million. As of September 30, 2005, the Company had a balance outstanding of \$21.0 million under the revolving credit facility and had \$39.0 million of additional credit immediately available under such facility.

The revolving credit facility and new senior notes indenture impose certain operating and financial restrictions on the Company. Such restrictions affect, and in many cases limit or prohibit, among other things, the Company's ability to incur additional indebtedness, make capital expenditures, redeem equity, create liens, sell assets and make dividend or other restricted payments.

Interest expense excludes capitalized interest related to the construction or conversion of vessels in the approximate amount of \$0.8 million and \$1.0 million for the three months ended September 30, 2005 and 2004, respectively. For the nine months ended September 30, 2005 and 2004, capitalized interest was approximately \$2.9 million and \$1.9 million, respectively.

5. Stock-Based Compensation

Incentive Compensation Plan

The Company has an Incentive Compensation Plan covering a maximum of 3.5 million shares of common stock that allows the Company to grant stock options to employees and directors. The purchase price of the stock subject to each option is determined by the Board of Directors of the Company and cannot be less than the fair market value of the stock at the date of grant. The Company accounts for the issuance of stock pursuant to the plan under the recognition and measurement principles of Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The issuance of shares of common stock under the incentive compensation plan has been registered on Form S-8 with the SEC.

Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

If compensation cost for the Company's stock options had been determined based on the fair value at the grant date consistent with the method under SFAS 123, the Company's income available to common stockholders for the three and nine months ended September 30, 2005 and 2004, respectively, would have been as indicated below (in thousands, except per share data):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Income available to common stockholders:				
As reported	\$ 9,398	\$ 3,303	\$ 22,360	\$ 7,573
Deduct: stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effect	(438)	(116)	(978)	(541)
Pro forma	<u>\$ 8,960</u>	<u>\$ 3,187</u>	<u>\$ 21,382</u>	<u>\$ 7,032</u>
Earnings per share of common stock:				
Basic, as reported	<u>\$ 0.45</u>	<u>\$ 0.16</u>	<u>\$ 1.07</u>	<u>\$ 0.40</u>
Basic, pro forma	<u>\$ 0.43</u>	<u>\$ 0.15</u>	<u>\$ 1.02</u>	<u>\$ 0.37</u>
Diluted, as reported	<u>\$ 0.44</u>	<u>\$ 0.15</u>	<u>\$ 1.05</u>	<u>\$ 0.39</u>
Diluted, pro forma	<u>\$ 0.42</u>	<u>\$ 0.15</u>	<u>\$ 1.00</u>	<u>\$ 0.36</u>

The fair value of the options granted under the Company's incentive compensation plan during each of the three and nine months ended September 30, 2005 and 2004 was estimated using the Black-Scholes pricing model using the minimum value method. Volatility was not considered in estimating the fair value of options granted prior to March 26, 2004, as the Company's stock was not publicly traded until that date. For stock options granted during 2005, the Company's actual stock volatility was used to calculate the fair value of options. In calculating the fair value of these options, we assumed ten-year risk free interest rates ranging between 3.94% and 4.34% for the three and nine months ended September 30, 2005 and September 30, 2004, respectively, and an expected life of seven to ten years with no expected dividends for each period.

Employee Stock Purchase Plan

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

On May 3, 2005, the Company established the Hornbeck Offshore Services, Inc. 2005 Employee Stock Purchase Plan, or ESPP, which was adopted by the Company's Board of Directors and approved by the Company's stockholders. The ESPP is a stock purchase program that will provide eligible employees of the Company and its designated subsidiaries the opportunity to purchase shares of the Company's common stock at periodic intervals through accumulated payroll deductions. These deductions will be applied at semi-annual intervals to purchase shares of common stock at a discount from the market price as defined by the ESPP. The ESPP is designed to satisfy the requirements of Section 423 of the Internal Revenue Code of 1986, as amended, and thereby allows participating employees to defer recognition of taxes when purchasing the shares of common stock at a 15% discount under

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the ESPP. On May 6, 2005, the Company filed a Registration Statement on Form S-8 to register the issuance of shares of common stock under the ESPP. The first purchase period for the ESPP began July 1, 2005 and ends December 31, 2005.

6. Commitments and Contingencies

Vessel Construction

On September 30, 2005, the Company was committed under vessel construction contracts with three shipyards for a total of three double-hulled tank barges one 135,000-barrel tank barge and two 110,000-barrel tank barges and the retrofit of two 6,100 horsepower tugs. As of September 30, 2005, the remaining amount expected to be incurred to complete construction and retrofit with respect to the three tank barges and two tugs, in the aggregate, was approximately \$11.0 million, which the Company expects to incur in the fourth quarter of 2005. The Company is obligated under the terms of these contracts to remit funds to the shipyards based on vessel construction milestones, which are subject to change during vessel construction.

On May 5, 2005, the Company announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370-foot multi-purpose supply vessels, or MPSVs. The total project cost to acquire and convert the two vessels is currently estimated to be \$65.0 million in the aggregate. The Company is currently evaluating prospective domestic shipyards and has not yet contractually committed to a shipyard for the costs associated with this conversion program. The Company anticipates delivery of the converted vessels during the first half of 2007.

On September 26, 2005, the Company announced new vessel construction programs for each of its two business segments. The Company is currently seeking bids from domestic shipyards for the two programs. Based on internal estimates, the incremental cost of the two expansion programs is expected to be approximately \$275.0 million in the aggregate. The precise number of vessels to be constructed and their specifications will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. The Company currently plans to build offshore supply vessels, or OSVs, with 20,000 deadweight tons of aggregate capacity and double-hulled tank barges with 400,000 barrels of aggregate carrying capacity plus related offshore tugs. The Company anticipates delivery of the newly constructed vessels from early 2007 through mid-2008.

Contingencies

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its consolidated financial condition or results of operations.

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

The Company insures against losses relating to its vessels, pollution and third party liabilities, including claims by employees under Section 27 of the Merchant Marine Act of

Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. Commencing in March 2005, the terms of entry for the Company's offshore supply vessel, or OSV, segment contained an annual aggregate deductible (AAD) for which the Company remains responsible, while the P&I Club is responsible for all applicable amounts that exceed the AAD, after payment by the Company of an additional individual claim deductible. The terms of entry for the Company's tug and tank barge segment does not contain an AAD. The Company provides reserves for those portions of the AAD and 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 litigation and revise its estimates. Such revisions in estimates of the potential liability could materially impact the Company's results of operations, financial position or cash flows. As of September 30, 2005, the Company's claims costs incurred under its OSV P&I Club policy had not exceeded the AAD.

7. Segment Information

The Company provides marine transportation services primarily to the energy industry through two business segments. The Company operates new generation OSVs, anchor-handling towing supply vessels, or AHTS, and a fast supply vessel in the U.S. Gulf of Mexico, Trinidad and select international markets through its OSV segment. The OSVs principally support complex exploration and production projects by transporting cargo to offshore drilling rigs and production facilities and provide support for specialty services. The tug and tank barge segment primarily operates ocean-going tugs and tank barges in the northeastern United States and Puerto Rico. The ocean-going tugs and tank barges provide coastwise transportation of refined and bunker grade petroleum products from one port to another. The following table shows reportable segment information for the three and nine months ended September 30, 2005 and 2004, reconciled to consolidated totals and prepared on the same basis as the Company's unaudited consolidated financial statements (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Operating revenues:				
Offshore supply vessels				
Domestic	\$ 22,492	\$ 16,162	\$ 60,448	\$ 42,430
Foreign	8,849	4,069	21,308	10,719
	31,341	20,231	81,756	53,149
Tugs and tank barges				
Domestic	13,076	10,873	37,917	36,504
Foreign (1)	2,045	1,788	5,776	4,873
	15,121	12,661	43,693	41,377

Total	\$ 46,462	\$ 32,892	\$ 125,449	\$ 94,526
-------	-----------	-----------	------------	-----------

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Operating expenses:				
Offshore supply vessels	\$ 9,408	\$ 7,628	\$ 26,024	\$ 21,190
Tugs and tank barges	7,169	6,438	22,020	20,923
Total	\$ 16,577	\$ 14,066	\$ 48,044	\$ 42,113
Depreciation:				
Offshore supply vessels	\$ 3,346	\$ 2,934	\$ 9,555	\$ 8,620
Tugs and tank barges	2,000	1,474	5,001	4,343
Total	\$ 5,346	\$ 4,408	\$ 14,556	\$ 12,963
Amortization:				
Offshore supply vessels	\$ 580	\$ 386	\$ 1,547	\$ 891
Tugs and tank barges	1,455	1,256	3,884	3,022
Total	\$ 2,035	\$ 1,642	\$ 5,431	\$ 3,913
General and administrative expenses:				
Offshore supply vessels	\$ 2,402	\$ 1,579	\$ 6,331	\$ 3,845
Tugs and tank barges	3,312	1,958	7,955	5,984
Total	\$ 5,714	\$ 3,537	\$ 14,286	\$ 9,829
Operating income:				
Offshore supply vessels	\$ 15,605	\$ 7,704	\$ 38,299	\$ 18,603
Tugs and tank barges	1,185	1,535	4,833	7,105
Total	\$ 16,790	\$ 9,239	\$ 43,132	\$ 25,708
Capital expenditures:				
Offshore supply vessels	\$ 2,224	\$ 970	\$ 37,010	\$ 8,929
Tugs and tank barges	27,119	7,266	62,205	32,943
Corporate	605	63	2,168	1,350
Total	\$ 29,948	\$ 8,299	\$ 101,383	\$ 43,222
Deferred drydocking charges:				
Offshore supply vessels	\$ 975	\$ 313	\$ 2,520	\$ 3,106

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

Tugs and tank barges	236	2,321	2,378	4,051
Total	\$ 1,211	\$ 2,634	\$ 4,898	\$ 7,157

Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	As of September 30, 2005	As of December 31, 2004
	<u>2005</u>	<u>2004</u>
Identifiable assets:		
Offshore supply vessels	\$ 331,573	\$ 328,857
Tugs and tank barges	168,674	119,980
Corporate	14,540	11,734
	<u>514,787</u>	<u>460,571</u>
Total	\$ 514,787	\$ 460,571
Long-lived assets:		
Offshore supply vessels		
Domestic	\$ 190,674	\$ 202,382
Foreign (2)	96,874	54,978
	<u>287,548</u>	<u>257,360</u>
Tugs and tank barges		
Domestic	146,540	95,301
Foreign (1)(2)	6,022	5,875
	<u>152,562</u>	<u>101,176</u>
Corporate	4,136	2,683
	<u>444,246</u>	<u>361,219</u>
Total	\$ 444,246	\$ 361,219

(1) Included are amounts applicable to our Puerto Rico tug and tank barge operations. Puerto Rico is considered a possession of the United States and the Jones Act and U.S. environmental laws and regulations apply to vessels operating in Puerto Rican waters.

(2) The Company's vessels conduct operations in international areas. As these assets may move to and from international and domestic operating areas on a regular basis, the long-lived assets reflected above represent the assets that are foreign-flagged or were present in international areas as of September 30, 2005 and December 31, 2004, respectively. Included in amounts as of September 30, 2005 are costs related to the acquisition and retrofit of the *HOS Saylor* and *HOS Navegante*, two foreign-flagged AHTS vessels that were purchased on January 19 and March 22, 2005, respectively.

8. Subsequent Events

On October 4, 2005, the Company issued an additional \$75.0 million aggregate principal amount of its 6.125% Senior Notes due 2014 in a private placement under its existing indenture dated as of November 23, 2004. The additional notes contain substantially the same terms as the existing senior notes and were priced at 99.25% of principal amount to yield 6.232%. The Company received approximately \$73.1 million in net proceeds from the issuance of the additional notes. The effective interest rate on the additional notes is 6.25%. The issuance of the additional notes was not registered under the Securities Act or applicable state

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

securities laws and the additional notes may not be offered or sold in the United States absent registration or available exemption from such registration requirements. The Company plans to exchange the additional notes for senior notes with substantially similar terms except that the issuance of the senior notes to be issued in the exchange offer will be registered under the Securities Act of 1933.

On October 4, 2005, the Company repaid in full the then-outstanding balance of \$21.0 million under its revolving credit facility. As of October 31, 2005, the Company had \$60.0 million of credit immediately available under such facility.

On October 5, 2005, the Company closed an underwritten public offering of 6.1 million shares of its common stock at a price to the public of \$35.35 per share resulting in gross proceeds of approximately \$215.6 million. The underwriters did not exercise their option to purchase any additional shares based on the public offering price.

Table of Contents

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 Annual Report on Form 10-K for the year ended December 31, 2004, as amended by Form 10-K/A. 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. 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. The term new generation, when referring to OSVs, means 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.

General

We own and operate a fleet of 25 technologically advanced, new generation OSVs, which include two foreign-flagged anchor-handling towing supply, or AHTS, vessels that primarily operate as supply vessels and for towing jack-up rigs. We also own and operate one fast supply vessel and own two former coastwise sulfur tankers that are to be converted into multi-purpose supply vessels, or MPSVs. Currently, 19 of our OSVs are operating in the U.S. Gulf of Mexico, six of our OSVs are operating offshore Trinidad, and our fast supply vessel is working offshore Mexico. Our current OSV count does not include vessels to be constructed under our recently announced fourth OSV newbuild program. We also own and operate 12 active ocean-going tugs and 16 active ocean-going tank barges, four of which are double-hulled. Currently, 14 of our tank barges are operating in the northeastern United States, primarily New York Harbor, and two are operating in Puerto Rico. By the end of calendar 2005, our tug and tank barge segment is expected to consist of 14 active ocean-going tugs and 18 active ocean-going tank barges, six of which will be double-hulled. This projected fleet count reflects two double-hulled tank barges currently under construction and two recently acquired ocean-going tugs currently under conversion. Our current tug and tank barge, or TTB, fleet count does not include vessels to be constructed under our recently announced second TTB newbuild program. Our active fleet count is net of one remaining single-hulled tank barge that was retired at the end of 2004 pursuant to the Oil Pollution Act of 1990, or OPA 90, that is currently inactive and unavailable to transport petroleum products in navigable waters of the United States. The other two retired vessels, the *Energy 9801* and the *Energy 9501*, were sold in April 2005 and September 2005, respectively.

We have developed, through a series of newbuild programs, a proprietary fleet of 200, 240, and 265 class new generation OSVs to meet the diverse needs of our customers. Through acquisitions, we have broadened the mix of our fleet to include additional 200 class vessels that are well suited for deep shelf gas exploration and other complex shelf drilling applications and to fill the increasing demand for modern equipment for conventional drilling on the Continental Shelf. We have continued our efforts to expand the services that we offer our customers with the acquisition of two AHTS vessels, which will primarily serve as 240 class supply vessels and for towing jack-up rigs, the conversion of two coastwise sulfur

Table of Contents

tankers for use as 370 class multi-purpose supply vessels, or MPSVs, and our fourth OSV newbuild program that will add, in the aggregate, approximately 20,000 deadweight tons of capacity to our OSV fleet.

Although the demand for new generation equipment has historically been driven by deepwater, deep shelf and highly complex projects, we are experiencing increased demand for our vessels for all types of projects, including transition zone and shelf activity, irrespective of water depth, drilling depth or project type, and non-oil and gas production activities. Notably, this prevailing shift in customer preference does not appear to be limited to the U.S. Gulf of Mexico, as we have also observed this preference in foreign areas such as Mexico, Trinidad, Brazil and West Africa.

Soft market conditions for OSVs in the U.S. Gulf of Mexico persisted from the second half of 2002 through the first half of 2004. Since the second half of 2004, OSV market conditions in the U.S. Gulf of Mexico have improved substantially. Our average dayrates have risen approximately \$4,000 since April 2004 to an average of approximately \$13,600 per day for the third quarter 2005, while our fleetwide OSV utilization has risen from roughly 70% to 99% over the same time span. Fleetwide average OSV dayrates have further increased to \$15,000 per day since the end of the third quarter of 2005. This combination of increased dayrates and utilization has resulted in our current effective, or utilization-adjusted, OSV dayrate being roughly double the level achieved in April 2004.

Market conditions in the U.S. Gulf of Mexico continue to show positive trends as evidenced by the increased level of approved applications to drill deepwater wells, certain operators' construction commitments for new deepwater floating rigs, deep shelf jack-up rigs, floating production units, subsea tie-backs and other deepwater production infrastructure and the additional demand for vessels in connection with surveying, repairing and reconstructing offshore infrastructure damaged by Hurricanes Katrina and Rita. Another encouraging indication of the visible demand for new generation OSVs is rising dayrates and utilization for all classes of offshore rigs, which in the past has been a barometer for OSV dayrates. With long-term contract fixtures for deepwater rigs extending out through 2010, we are increasingly optimistic that the current up-cycle in the U.S. Gulf of Mexico may extend well beyond 2006. The supply fundamentals for new generation OSVs could further impact market conditions. The average age of conventional 180 class OSVs is approximately 25 years; therefore, we expect that there will be a continued and accelerated attrition rate for such vessels working in the U.S. Gulf of Mexico and abroad. Although OSVs have been recently constructed to replace the worldwide conventional 180 class tonnage being removed from service, several U.S.-flagged new generation OSVs have left the U.S. Gulf of Mexico for foreign markets and non-oil field applications, which are trends that we expect to continue.

The primary demand drivers for our tug and tank barge services are population growth, the strength of the U.S. economy, changes in weather, oil prices and competition from alternate energy sources. The tug and tank barge market, in general, is marked by steady demand over time. Results for the first and fourth quarters of a given year are typically higher due to normal seasonal winter-weather patterns that typically result in a drop-off of activity during the second and third quarters. We generally take advantage of this seasonality to prepare our tug and tank barge fleet for peak demand periods by performing our regulatory drydocking and maintenance programs during the second and third quarters. In addition, we regularly evaluate our customers' needs and often elect to accelerate scheduled drydockings.

Table of Contents

to take advantage of certain market opportunities as they develop. However, the seasonal effect on our results for this segment may diminish over time as we endeavor to charter more of our tugs and tank barges on time charters rather than contracts of affreightment.

As the most recent major OPA 90 milestone approached on January 1, 2005 and since that date, customer demand for double-hulled equipment has led to increases in dayrates for this equipment, particularly for tank barges in black oil service. We are actively working to ensure that our fleet is well positioned to take advantage of these opportunities as they develop. In November 2003, we commenced our first double-hulled tank barge newbuild program to replace three barges comprising about 270,000 barrels of single-hulled capacity that we retired from service at the end of 2004 pursuant to OPA 90 with five barges comprising approximately 600,000 barrels of new double-hulled capacity. Our first three new double-hulled tank barges, the *Energy 13501*, *Energy 11103*, *Energy 11104*, were delivered on March 11, 2005, July 10, 2005 and October 4, 2005, respectively, and more than replaced the capacity of the single-hulled vessels that we retired. The remaining two newbuild tank barges, the *Energy 13502* and *Energy 11105*, are each expected to be placed in service during the fourth quarter of 2005. On September 26, 2005, we announced our second tug and tank barge newbuild program, which will add multiple barges comprising an incremental 400,000 barrels of barge-carrying capacity and related tugs to our fleet during 2007. Upon completion of our current newbuild program and our recently announced second tug and tank barge newbuild program, 58% of our tank barge fleet barrel capacity is expected to be double-hulled.

Critical Accounting Policies

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 generally accepted accounting principles, or GAAP. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon information available. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are discussed in note 2 to our consolidated financial statements included in our Annual Report on Form 10-K, for the year ended December 31, 2004, as amended by Form 10-K/A. There were no significant changes to our critical accounting policies as reported in our Annual Report on Form 10-K during the nine months ended September 30, 2005.

Table of Contents**Results of Operations**

The tables below set forth, by segment, the average dayrates, utilization rates and effective dayrates for our vessels and the average number and size of vessels owned during the periods indicated. These OSVs and tank barges generate substantially all of our revenues and operating profit. The table does not include the results of operations of the *HOS Hotshot*, a 165-ft. fast supply vessel that we acquired in May 2004.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Offshore Supply Vessels:				
Average number of vessels	25.0	23.0	24.4	22.8
Average fleet capacity (deadweight)	59,042	52,398	56,798	51,666
Average vessel capacity (deadweight)	2,362	2,278	2,337	2,272
Average utilization rate (1)	98.7%	93.2%	96.6%	85.2%
Average dayrate (2)	\$ 13,638	\$ 10,096	\$ 12,567	\$ 9,864
Effective dayrate (3)	\$ 13,461	\$ 9,409	\$ 12,140	\$ 8,404
Tugs and Tank Barges:				
Average number of tank barges	14.9	16.0	14.1	16.0
Average fleet capacity (barrels)	1,111,174	1,156,330	1,010,403	1,156,330
Average barge capacity (barrels)	74,078	72,271	70,408	72,271
Average utilization rate (1)	83.9%	76.0%	84.9%	82.3%
Average dayrate (4)	\$ 12,809	\$ 11,151	\$ 12,884	\$ 11,278
Effective dayrate (3)	\$ 10,747	\$ 8,475	\$ 10,939	\$ 9,282

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

(2) Average dayrate represents average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.

(3) Effective dayrate represents the average dayrate multiplied by the average utilization rate.

(4) Average dayrate represents average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost paid by customers of in-chartering third party equipment.

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 Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation, amortization and losses on early extinguishment of debt. 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 a comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to it 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

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

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

Table of Contents

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 one of the financial metrics 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 bonuses paid to our executive officers and 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, incur additional indebtedness and execute our growth strategy.

The following table provides the detailed components of EBITDA, as we define that term, for the three and nine months ended September 30, 2005 and 2004, respectively (in thousands).

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Components of EBITDA:				
Net income	\$ 9,398	\$ 3,303	\$ 22,360	\$ 7,573
Interest expense, net	2,959	3,982	8,155	13,677
Income tax expense	5,309	1,982	12,924	4,482
Depreciation	5,346	4,408	14,556	12,963
Amortization	2,035	1,642	5,431	3,913
Loss on early extinguishment of debt.			1,698	
EBITDA	\$ 25,047	\$ 15,317	\$ 65,124	\$ 42,608

The following table reconciles EBITDA to cash flows provided by operating activities for the three and nine months ended September 30, 2005 and 2004, respectively (in thousands).

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
EBITDA Reconciliation to GAAP:				
EBITDA	\$ 25,047	\$ 15,317	\$ 65,124	\$ 42,608
Cash paid for deferred drydocking charges	(1,211)	(2,634)	(4,898)	(7,157)
Cash paid for interest	(216)	(8,364)	(8,418)	(18,672)
Changes in working capital	746	(2,547)	2,244	(2,033)

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

Changes in other, net	(594)	(53)	(1,830)	(120)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash flows provided by operating activities	\$ 23,772	\$ 1,719	\$ 52,222	\$ 14,626
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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,

Table of Contents

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, 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.

The following table provides detailed components of net income for the three and nine months ended September 30, 2005 and 2004, respectively (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues:				
Offshore supply vessels (1)				
Domestic	\$ 22,492	\$ 16,162	\$ 60,448	\$ 42,430
Foreign	8,849	4,069	21,308	10,719
	<u>31,341</u>	<u>20,231</u>	<u>81,756</u>	<u>53,149</u>
Tugs and tank barges				
Domestic	13,076	10,873	37,917	36,504
Foreign (2)	2,045	1,788	5,776	4,873
	<u>15,121</u>	<u>12,661</u>	<u>43,693</u>	<u>41,377</u>
Total	\$ 46,462	\$ 32,892	\$ 125,449	\$ 94,526
Operating expenses:				
Offshore supply vessels	\$ 9,408	\$ 7,628	\$ 26,024	\$ 21,190
Tugs and tank barges	7,169	6,438	22,020	20,923
	<u>\$ 16,577</u>	<u>\$ 14,066</u>	<u>\$ 48,044</u>	<u>\$ 42,113</u>
Depreciation and amortization:				
Offshore supply vessels	\$ 3,926	\$ 3,320	\$ 11,102	\$ 9,511
Tugs and tank barges	3,455	2,730	8,885	7,365
Total	\$ 7,381	\$ 6,050	\$ 19,987	\$ 16,876

Edgar Filing: HORNBECK OFFSHORE SERVICES INC /LA - Form 10-Q

General and administrative expenses	\$ 5,714	\$ 3,537	\$ 14,286	\$ 9,829
Loss on early extinguishment of debt	\$	\$	\$ 1,698	\$
Interest expense	\$ 3,112	\$ 4,089	\$ 8,550	\$ 13,890
Interest income	\$ 153	\$ 107	\$ 395	\$ 213
Income tax expense	\$ 5,309	\$ 1,982	\$ 12,294	\$ 4,482

-
- (1) Included in OSV revenues are amounts applicable to our fast supply vessel, the *HOS Hotshot*, that we acquired in May 2004, as well as our AHTS vessels, the *HOS Saylor* and *HOS Navegante*, that we acquired in January and March 2005, respectively.
- (2) Included are amounts applicable to our Puerto Rico tug and tank barge operations. Puerto Rico is considered a possession of the United States and the Jones Act and U.S. environmental laws and regulations apply to vessels operating in Puerto Rican waters.

Table of Contents

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Revenues. Revenues were \$46.5 million for the three months ended September 30, 2005, compared to \$32.9 million for the same period in 2004, an increase of \$13.6 million or 41.3%. This increase in revenues is primarily the result of stronger market conditions in the Gulf of Mexico for OSV services as well as in the northeastern United States for barge transportation services. The average number of vessels in our combined OSV and tank barge fleets remained relatively flat due to offsetting increases and decreases in the number of vessels in our two segments. Our OSV fleet size increased by two vessels due to the addition of the *HOS Saylor* and *HOS Navegante*, which were placed in service in January 2005 and June 2005, respectively. Our average tank barge fleet decreased by one vessel as a net result of having three single-hulled barges retired from service at the end of 2004 due to OPA 90 and the *Energy 13501* and *Energy 11103* being placed in service on March 11, 2005 and July 10, 2005, respectively. The vessels added to our fleet since September of 2004 represent \$5.1 million of the increase in our revenues, while vessels that were in service during each of the full quarters ended September 30, 2005 and 2004 accounted for the remaining \$8.5 million of the net increase in revenues.

Revenues from our OSV segment were \$31.3 million for the three months ended September 30, 2005, compared to \$20.2 million for the same period in 2004, an increase of \$11.1 million or 55.0%. The net increase in segment revenues is due primarily to a significant improvement in dayrates and utilization and the addition of two AHTS vessels. Our OSV average dayrate increased to \$13,638 for the third quarter of 2005 compared to \$10,096 for the same period of 2004, an increase of \$3,542 or 35.1%. Our OSV utilization rate was 98.7% for the three months ended September 30, 2005, which was higher than the 93.2% we achieved for the same period of 2004. Domestic revenues for our OSV segment were \$22.5 million for the three months ended September 30, 2005, an increase of \$6.3 million or 38.9%, compared to \$16.2 million for the same period in 2004, due mainly to the continued strengthening of the OSV market in the U.S. Gulf of Mexico. Foreign revenues for our OSV segment increased to \$8.8 million for the three months ended September 30, 2005, compared to \$4.1 million for the same period in 2004, an increase of \$4.7 million or 114.6%, due primarily to having an average of 5.0 additional vessels working internationally during the third quarter of 2005. Based on current market trends, we anticipate that our fleetwide OSV effective dayrates will remain at or above third quarter 2005 levels for the remainder of 2005 and through calendar 2006.

Revenues from our tug and tank barge segment totaled \$15.1 million for the three months ended September 30, 2005 compared to \$12.7 million for the same period in 2004, an increase of \$2.4 million or 18.9%. The net increase in segment revenues is due to increased utilization and dayrates along with the addition of one 135,000-barrel tank barge in March 2005 and one 110,000-barrel tank barge in July 2005. Our tank barge utilization rate increased to 83.9% for the three months ended September 30, 2005, compared to 76.0% for the same period in 2004, which was primarily the result of a change in contract mix from contracts of affreightment to time charters and less drydocking and repair activities during the 2005 third quarter compared to the prior-year quarter. Our tank barge average dayrate of \$12,809 for the three months ended September 30, 2005 increased \$1,658 or 14.9% from \$11,151 for the same period of 2004. The increase in average dayrates was primarily due to further tightening of the tank barge market in the northeastern United States and the delivery

Table of Contents

of the *Energy 13501* and *Energy 11103* in March 2005 and July 2005, respectively, the first two double-hulled tank barges to be delivered under our first newbuild program. The *Energy 13501* and the *Energy 11103* are able to command higher average dayrates as newbuild double-hulled tank barges with higher barrel-carrying capacity compared to our predominantly single-hulled fleetwide average barrel-carrying capacity.

Operating Expense. Our operating expense increased to \$16.6 million for the three months ended September 30, 2005 compared to \$14.1 million for the same period in 2004, an increase of \$2.5 million, or 17.7%. The increase in operating expenses was primarily the result of the addition of two AHTS vessels, two higher horsepower, ocean-going tugs and two double-hulled tank barges to our fleet during 2005, which was partially offset by the retirement of three tank barges at the end of 2004 due to OPA 90. The increase in operating expense was also impacted by increasing costs related to fuel, personnel and insurance.