HORNBECK OFFSHORE SERVICES INC /LA
Form 10-Q
November 09, 2016
Table of Contents

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, 2016
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	72-1375844
(State or other jurisdiction of incorporation or organization)	(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 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, 2016 was 36,374,365.

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016
TABLE OF CONTENTS

Table of Contents

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, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$225,461	$259,801
Accounts receivable, net of allowance for doubtful accounts of $2,158 and $2,877, respectively	44,506	91,202
Other current assets	14,071	13,033
Total current assets	284,038	364,036
Property, plant and equipment, net	2,598,244	2,574,661
Deferred charges, net	20,778	35,273
Other assets	10,363	10,446
Total assets	$2,913,423	$2,984,416
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$13,185	$35,742
Accrued interest	13,531	14,795
Accrued payroll and benefits	8,204	11,396
Other accrued liabilities	12,250	23,612
Total current liabilities	47,170	85,545
Long-term debt, net of original issue discount of $33,782 and $41,600 and deferred financing costs of $10,934 and $13,119, respectively	1,080,284	1,070,281
Deferred tax liabilities, net	359,273	381,619
Other liabilities	1,496	808
Total liabilities	1,488,223	1,538,253
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; 36,374 and 35,985 shares issued and outstanding, respectively	364	360
Additional paid-in-capital	751,907	748,041
Retained earnings	657,235	701,838
Accumulated other comprehensive income (loss)	15,694	(4,076)
Total stockholders' equity	1,425,200	1,446,163
Total liabilities and stockholders' equity	$2,913,423	$2,984,416

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Revenues:				
Vessel revenues	$43,670	$108,308	$157,170	$366,608
Non-vessel revenues	8,257	7,973	25,250	20,743
	51,927	116,281	182,420	387,351
Costs and expenses:				
Operating expenses	29,375	54,938	104,134	173,900
Depreciation	23,467	20,958	68,298	61,114
Amortization	4,580	6,392	16,675	20,192
General and administrative expenses	9,031	12,188	30,084	37,143
	66,453	94,476	219,191	292,349
Gain on sale of assets	81	11,004	36	44,060
Operating income (loss)	(14,445)	32,809	(36,735)	139,062
Other income (expense):				
Interest income	401	381	1,164	988
Interest expense	(12,820)	(9,712)	(34,888)	(29,895)
Other income	1,592	94	2,048	1,016
	(10,827)	(9,237)	(31,676)	(27,891)
Income (loss) before income taxes	(25,272)	23,572	(68,411)	111,171
Income tax expense (benefit)	(8,769)	9,148	(23,808)	41,679
Net income (loss)	$(16,503)	$14,424	$(44,603)	$69,492
Earnings (loss) per share				
Basic earnings (loss) per common share	$(0.45)	$0.40	$(1.23)	$1.95
Diluted earnings (loss) per common share	$(0.45)	$0.40	$(1.23)	$1.92
Weighted average basic shares outstanding	36,338	35,832	36,205	35,723
Weighted average diluted shares outstanding	36,338	36,383	36,205	36,256

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Net income (loss)	$(16,503)	$14,424	$(44,603)	$69,492
Other comprehensive income:				
Foreign currency translation income (loss)	(908)	(2,866)	19,770	(3,120)
Total comprehensive income (loss)	$(17,411)	$11,558	$(24,833)	$66,372

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

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(44,603)	$69,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	68,298	61,114
Amortization	16,675	20,192
Stock-based compensation expense	6,557	7,957
Provision for bad debts	(719)	(697)
Deferred tax expense (benefit)	(21,097)	41,516
Amortization of deferred financing costs	8,131	7,267
Gain on sale of assets	(36)	(44,060)
Changes in operating assets and liabilities:		
Accounts receivable	50,321	44,910
Other current and long-term assets	591	1,185
Deferred drydocking charges	(3,214)	(12,034)
Accounts payable	(8,406)	(8,271)
Accrued liabilities and other liabilities	(14,523)	(2,804)
Accrued interest	(1,264)	(1,299)
Net cash provided by operating activities	56,711	184,468
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for OSV newbuild program	(73,198)	(152,415)
Net proceeds from sale of assets	506	152,000
Vessel capital expenditures	(18,706)	(47,460)
Non-vessel capital expenditures	(414)	(15,855)
Net cash used in investing activities	(91,812)	(63,730)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Deferred financing costs	(1,102)	(2,089)
Net cash proceeds from other shares issued	732	1,966
Net cash used in financing activities	(370)	(123)
Effects of exchange rate changes on cash	1,131	(3,120)
Net increase (decrease) in cash and cash equivalents	(34,340)	117,495
Cash and cash equivalents at beginning of period	259,801	185,123
Cash and cash equivalents at end of period	$225,461	$302,618
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Cash paid for interest	$38,871	$39,151
Cash paid for income taxes	$2,688	$3,331

The accompanying notes are an integral part of these consolidated 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, 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, 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. Certain reclassifications have been made to prior period results to conform to current year presentation.

The consolidated balance sheet at December 31, 2015 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.

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

2. Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could have a material effect on our financial statements:

Standard	Description	Date of Adoption	Effect on the financial statements and other significant matters
Standards that are not yet adopted			
Accounting Standards Update (ASU) No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments"	The standard clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU No. 2016-15 requires retrospective application. Early adoption is permitted.	January 1, 2018	The Company believes that the implementation of this new guidance will not have a material impact on it consolidated financial statements.
ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	This standard requires measurement and recognition of expected credit losses for financial assets held. Early adoption is permitted.	January 1, 2020	The Company believes that the implementation of this new guidance will not have a material impact on it consolidated financial statements.
ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"	This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures and classification of related amounts within the statement of cash flows. Early adoption is permitted.	January 1, 2017	The Company is evaluating the effect of this new standard on its financial statements and related disclosures.
ASU No. 2016-02, "Leases" (Topic 842)	This standard requires lessees to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. ASU 2016-02 requires a modified retrospective application. Early adoption is permitted.	January 1, 2019	The Company is evaluating the effect of this new standard on its financial statements and related disclosures.
ASU No. 2014-15, "Presentation of Financial Statements - Going Concern"	The standard requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern. Early adoption is permitted.	January 1, 2017	The Company believes that the implementation of this new guidance will not have a material impact on it consolidated financial

			statements.
ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606)	This standard 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.	January 1, 2018	The Company is evaluating the effect of this new standard on its financial statements and related disclosures.

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

3. Earnings (Loss) Per Share

Basic earnings (loss) per common share was calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share was calculated by dividing net income (loss) 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$(16,503)	$14,424	$(44,603)	$69,492
Weighted average number of shares of common stock outstanding	36,338	35,832	36,205	35,723
Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)(3)	—	551	—	533
Weighted average number of dilutive shares of common stock outstanding	36,338	36,383	36,205	36,256
Earnings (loss) per common share:				
Basic earnings (loss) per common share	$(0.45)	$0.40	$(1.23)	$1.95
Diluted earnings (loss) per common share	$(0.45)	$0.40	$(1.23)	$1.92

(1) Due to a net loss, the Company excluded from the calculation of loss per share the effect of equity awards representing the rights to acquire 988 and 974 shares of common stock for the three and nine months ended September 30, 2016. For the three and nine months ended September 30, 2015, the Company had 317 and 326 anti-dilutive stock options, respectively. 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.

(2) For the three and nine months ended September 30, 2016 and 2015, 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.

(3) 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. Property, Plant and Equipment

Asset Impairment Assessment

In accordance with ASC 360, the Company periodically reviews long-lived asset valuations when events or changes in circumstances indicate that an asset's carrying value may not be recoverable. If indicators of impairment exist, the Company assesses the recoverability of its long-lived assets by comparing the projected future undiscounted cash flows associated with the related long-lived asset group over their remaining estimated useful lives. If the sum of the estimated undiscounted cash flows are less than the carrying amounts of the asset group, the assets are written down to their estimated fair values based on the expected discounted future cash flows or appraised values attributable to the assets. The future cash flows are subjective and are based on the Company’s current assumptions regarding future dayrates, utilization, operating expense, G&A expense and recertification costs that could differ from actual results.

During the three months ended June 30, 2016, the Company determined that it observed indicators of impairment related to its vessels. This resulted from the rapid deterioration of its second quarter 2016 operating results, as well as the uncertainty regarding future market conditions and the related impact on the Company's projected operating results. For the purposes of calculating the undiscounted cash flows, the Company groups its vessels into two groups, OSVs and MPSVs, and used a probability-weighted undiscounted cash flow projection to test for recoverability. After reviewing the results of this calculation, the Company determined that each of its asset groups has sufficient projected undiscounted cash flows to recover the remaining book value of the Company's long-lived assets within such group. During the third quarter of 2016, the Company reviewed the assumptions used in preparing the undiscounted cash flow projections and it concluded that such assumptions remain consistent with current market conditions. In addition, the Company has not observed any additional indicators of impairment related to its vessels during the three months ended September 30, 2016.

Vessel Sales

On March 30, 2016, the Company closed on the sale of its last remaining non-core conventional OSV, the Cape Breton, for cash consideration of $420,000. The sale resulted in a pre-tax loss of approximately $45,000 ($31,000 after-tax or $0.00 per diluted share). During the three months ended September 30, 2016, the Company sold vessel-related equipment for cash consideration of $0.1 million. The sale resulted in a pre-tax gain of approximately $81,000 ($53,000 after-tax or $0.00 per diluted share).

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). On August 28, 2015, the Company closed on the sale of the HOS Black Powder 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). These vessels are now managed by the Company for the U.S. Navy.

5. Long-Term Debt

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

	September 30, 2016	December 31, 2015
5.875% senior notes due 2020, net of deferred financing costs of $3,255 and $3,944	$ 371,745	$ 371,056
5.000% senior notes due 2021, net of deferred financing costs of $4,353 and $5,080	445,647	444,920
1.500% convertible senior notes due 2019, net of original issue discount of $33,782 and $41,600 and deferred financing costs of $3,326 and $4,095	262,892	254,305
Revolving credit facility due 2020	—	—
	$ 1,080,284	$ 1,070,281

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

	Semi-Annual Cash 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

Revolving Credit Facility

On July 29, 2016, the Company amended its existing revolving credit facility. The amended facility provides continued access to a reduced level of standby liquidity for working capital and general corporate purposes, including acquisitions, newbuild and conversion programs and other capital expenditures. The changes to the Company's revolving credit facility were effective July 29, 2016, and commenced with the fiscal quarter ending September 30, 2016. The more significant changes to the facility are noted below:

- reduce the borrowing base from $300.0 million to $200.0 million;
- increase the unused commitment fee to 50 basis points for all pricing levels;
- increase the London Interbank Offered Rate, or LIBOR, spreads on funded borrowings by 25 basis points for all pricing levels;
- increase the minimum collateral-to-loan value ratio from 150% of the borrowing base to 200% of the borrowing base, which resulted in a decrease in the fair value of collateral pledged from $450.0 million to $400.0 million;
- delay the previously scheduled step-down in the total debt-to-capitalization ratio, as defined, from 55% to 50% by six quarters to commence with the fiscal quarter ending September 30, 2018;
- reduce the minimum interest coverage ratio from 3.00x to 1.00x with a step-up to 1.25x for the fiscal quarter ending September 30, 2018 and a step-up to 1.50x for the fiscal quarter ending March 31, 2019;
- allow the Company the option of making a one-time election to suspend the interest coverage ratio for a holiday period of no more than four quarters, ending no later than December 31, 2017, with a single permitted rescission. If the Company elects to exercise the interest coverage holiday, then the borrowing base will be capped at $75.0 million during the holiday and the LIBOR spreads for funded borrowings will be increased by an additional 50 basis points during and after the interest coverage holiday;
- inclusion of an anti-cash hoarding provision that limits the Company's cash balance to no more than $50.0 million at any time during which the revolving credit facility is drawn;
- increase minimum liquidity (cash and credit facility availability) required for prepayment of the Company's 2019 convertible senior notes, 2020 senior notes, and 2021 senior notes from $100.0 million to $150.0 million subject to a maximum senior secured leverage ratio of 2-to-1;
- permit the Company to create one or more Investment Entities, as defined. The Investment Entities would be capitalized (i) by the Company, by transferring certain vessels identified in the First Amendment and (ii) by one or more unaffiliated third parties, by depositing cash, with the cash funding being available for acquisitions;
- amend the definitions of EBITDA and Pro Forma EBITDA to provide that, commencing with the earlier of (a) the first full fiscal quarter after the expiration of the interest coverage holiday and (b) the fiscal quarter ending March 31, 2018, or the Applicable Period, and until the third immediately following fiscal quarter thereafter, EBITDA and Pro Forma EBITDA, as applicable, shall mean, with respect to the Company and its consolidated subsidiaries, (a) for the Applicable Period, EBITDA, or Pro Forma EBITDA, as applicable, for such fiscal quarter multiplied by four, (b) for the Applicable Period and the immediately following fiscal quarter, EBITDA, or Pro Forma EBITDA, as applicable, for such fiscal quarters multiplied by two, and (c) for the Applicable Period and the two immediately following fiscal quarters, EBITDA, or Pro Forma EBITDA, as applicable, for such fiscal quarters multiplied by one and one-third;

- reduce the amount of liens permitted to secure debt (other than the Amended Facility) of any loan party from $50.0 million at any one time to $15.0 million, and to prohibit such liens during the interest coverage holiday;
- condition Restricted Payments, as defined, on pro forma compliance with the interest coverage ratio and the total debt-to-capitalization ratio and compliance with a maximum senior secured leverage ratio of 2-to-1;
- increase the amount of cash or cash equivalents on deposit or unused availability under the Amended Facility or a combination of both from $20.0 million to $100.0 million and require a maximum senior secured leverage ratio of 2-to-1 in order to permit a loan party to merge with another person, acquire or form a new subsidiary, make an investment (other than in an Investment Entity) or acquire any vessel or other capital assets; and
- limit sales or other dispositions of property or subsidiaries owning properties, other than inventory, certain equipment or investments in the Investment Entities, to (i) less than twenty percent (20%) of the consolidated net tangible assets of the Company if at the time of such sale or disposition the senior secured leverage ratio is less than or equal to 2-to-1, or (ii) less than ten percent (10%) of the consolidated net tangible assets of the Company if at the time of such sale or disposition the senior secured leverage ratio is greater than 2-to-1.

As of September 30, 2016, there were no amounts drawn under the Company's $200.0 million revolving credit facility. As of September 30, 2016, 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, but subject to the anti-cash hoarding provision described above.

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. 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. As of the dates indicated below, the Company had the following face values, carrying values and fair values (in thousands):

	September 30, 2016			December 31, 2015		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
5.875% senior notes due 2020	$375,000	$371,745	$229,688	$375,000	$371,056	$257,813
5.000% senior notes due 2021	450,000	445,647	258,187	450,000	444,920	308,250
1.500% convertible senior notes due 2019	300,000	262,892	170,445	300,000	254,305	170,340
	$1,125,000	$1,080,284	$658,320	$1,125,000	$1,070,281	$736,403

Capitalized Interest

During the three and nine months ended September 30, 2016, the Company capitalized approximately $4.2 million and $14.3 million, respectively, of interest costs related to the construction of vessels. 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.

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

6. Incentive Compensation
Stock-Based Incentive Compensation Plan
The Company’s stock-based incentive compensation plan 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, 2016, the Company has granted awards covering 4.4 million shares of common stock under such plan. During the nine months ended September 30, 2016, the Company granted phantom restricted stock units, time-based restricted stock units and fully-vested common stock as noted in the table below.

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

The shares to be received under the performance-based phantom restricted stock units are calculated based on the Company's performance compared to three pre-determined criteria, as defined by the phantom 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, 2016, the Company granted 396,369 time-based restricted stock units, 467,272 time-based and 522,402 performance based phantom restricted stock units and 139,133 shares of fully-vested common stock.
The fair value of the Company’s performance-based restricted stock units and phantom 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 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, all 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 2016, the Company granted performance-based and time-based restricted stock units and phantom stock units in prior years. During the nine months ended September 30, 2016, the Company issued 389,355 shares, in the aggregate, of stock due to: 1) vestings of restricted stock units, 2) employee purchases under the Company's Employee Stock Purchase Plan and 3) the issuance of fully-vested common stock.
The impact of stock-based compensation expense charges on the Company’s operating results are reflected in the table below (in thousands, except for per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income before taxes	$2,341	$3,183	$6,557	$7,957
Net income	$1,529	$1,948	$4,275	$4,973
Earnings per common share:				
Basic earnings per common share	$0.04	$0.05	$0.12	$0.14
Diluted earnings per common share	$0.04	$0.05	$0.12	$0.14

7. Commitments and Contingencies

Vessel Construction

In February 2016, the Company announced plans to enhance the marketability of the four remaining 310 class MPSVs. The first two of those MPSVs, which were delivered in the third quarter of 2016, were enhanced by increasing the berthing capacity, expanding the cargo-carrying capabilities and expanding the work area for ROVs. The functionality of the second two MPSVs, which are still under construction, will be increased by adding a 60-foot mid-body plug, installation of an additional crane, increasing the berthing capacity, expanding the cargo-carrying capacities and expanding the work areas for ROVs. These latter two MPSVs have been upgraded to a 400 class designation. The incremental aggregate cost of these four conversions and construction change orders will be approximately $70.0 million.

In August 2016, the Company announced that it had reached an agreement with the shipyard to postpone the delivery of the final two 400 class MPSVs to be delivered under this program to the first and second quarters of 2018 without any additional cost to the Company. In addition, the payment terms for the remainder of the contract were adjusted to shift $43.3 million of construction milestone draws from the remainder of 2016 and 2017 into 2018. The Company's fifth OSV newbuild program consists of four 300 class OSVs, five 310 class OSVs, ten 320 class OSVs, three 310 class MPSVs and two 400 class MPSVs.

As of September 30, 2016, the Company had placed 22 vessels in service under such program. The aggregate cost of the Company's fifth OSV newbuild program, excluding construction period interest, is expected to be approximately $1,335.0 million, of which $6.9 million, $21.8 million, and $43.3 million are expected to be incurred in the remainder of 2016, 2017, and 2018, respectively. From the inception of this program through September 30, 2016, the Company had incurred $1,263.0 million, or 94.6%, of total expected project costs.

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 the Company's financial position or results of operations. 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 historically revisions to such estimates 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 included limitations regarding fuel consumption. Petrobras has asserted claims against the Company relating to excess fuel consumption in 2010 and 2011. The Company’s exposure for these assessments, net of amounts accrued, is in the range of approximately $0.5 million to $3.0 million. The Company disagrees with a majority of 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 has filed and been denied multiple appeals. Petrobras has the ability to request a final review of the case by the Supreme 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.

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 another court. As of September 30, 2016, these potential duties have not been assessed or 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, a customer, ATP Oil and Gas, Inc., initiated a reorganization proceeding under Chapter 11 of the United States Bankruptcy Code, which was subsequently converted to a Chapter 7 case. Pre-petition receivables from ATP are $4.8 million and the Company has recorded $0.9 million in reserves. The Company believes its claim is secured under the Louisiana Oil Well Lien Act. A legal challenge related to the Company's liens has been raised in the bankruptcy proceedings by parties whose interests are affected by the liens. The Company, together with its outside legal counsel, believe its lien position is valid, but the Bankruptcy Court has disagreed. The matter is now being reviewed by the federal district court in Houston, Texas. An unfavorable final judgment would render the Company's position to that of an unsecured creditor in the bankruptcy proceeding. 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 materially differ from the current estimate.

8. Other Accrued Liabilities

Other accrued liabilities include the following (in thousands):

	September 30, 2016	December 31, 2015
Accrued lease expense	$ 4,659	$ 4,339
Deferred revenue	1,158	5,734
Current taxes payable	892	3,958
Other	5,541	9,581
Total	$ 12,250	$ 23,612

Table of Contents

9. Condensed Consolidating Financial Statements of Guarantors

The following tables present the condensed consolidating balance sheets as of September 30, 2016 and December 31, 2015, the condensed consolidating statement of operations and the condensed consolidating statement of comprehensive income (loss) for the three and nine months ended September 30, 2016 and the condensed consolidating statement of cash flows for the nine months ended September 30, 2016 for the domestic subsidiaries of the Company that serve as guarantors of the Company's 2019 convertible senior notes, 2020 senior notes and 2021 senior notes and the financial results for the Company's subsidiaries that do not serve as guarantors. The guarantor subsidiaries of the 2019 convertible senior notes, 2020 senior notes and 2021 senior notes are 100% owned by the Company. The guarantees are full and unconditional and joint and several and prior to the fourth quarter of 2015, all of the Company's non-guarantor subsidiaries were minor as defined in the Securities and Exchange Commission regulations. The non-guarantor subsidiaries of such notes include all of the Company's foreign subsidiaries.

Table of Contents

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

Condensed Consolidating Balance Sheet
(In thousands, except per share data)

	As of September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$17	$216,126	$ 9,318	$—	$225,461
Accounts receivable, net of allowance for doubtful accounts of $2,158	—	38,463	9,612	(3,569)	44,506
Other current assets	38	13,503	530	—	14,071
Total current assets	55	268,092	19,460	(3,569)	284,038
Property, plant and equipment, net	—	2,473,049	125,195	—	2,598,244
Deferred charges, net	2,791	17,244	743	—	20,778
Intercompany receivable	1,722,917	200,182	85,683	(2,008,782)	—
Investment in subsidiaries	775,816	8,602	—	(784,418)	—
Other assets	1,743	6,320	2,300	—	10,363
Total assets	$2,503,322	$2,973,489	$ 233,381	$(2,796,769)	$2,913,423
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$12,737	$ 5,600	$(5,152)	$13,185
Accrued interest	13,531	—	—	—	13,531
Accrued payroll and benefits	—	7,367	837	—	8,204
Other accrued liabilities	—	10,891	1,503	(144)	12,250
Total current liabilities	13,531	30,995	7,940	(5,296)	47,170
Long-term debt, net of original issue discount of $33,782 and deferred financing costs of $10,934	1,080,284	—	—	—	1,080,284
Deferred tax liabilities, net	—	359,273	—	—	359,273
Intercompany payables	—	1,794,147	221,510	(2,015,657)	—
Other liabilities	—	1,496	—	—	1,496
Total liabilities	1,093,815	2,185,911	229,450	(2,020,953)	1,488,223
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; 36,374 shares issued and outstanding	364	—	—	—	364
Additional paid-in capital	751,908	37,978	8,601	(46,580)	751,907
Retained earnings	657,235	749,450	(20,214)	(729,236)	657,235
Accumulated other comprehensive loss	—	150	15,544	—	15,694
Total stockholders' equity	1,409,507	787,578	3,931	(775,816)	1,425,200
Total liabilities and stockholders' equity	$2,503,322	$2,973,489	$ 233,381	$(2,796,769)	$2,913,423

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

Condensed Consolidating Balance Sheet
(In thousands, except per share data)

	As of December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$10	$252,651	$7,140	$—	$259,801
Accounts receivable, net of allowance for doubtful accounts of $2,877	—	41,963	54,416	(5,177)	91,202
Other current assets	12	12,955	66	—	13,033
Total current assets	22	307,569	61,622	(5,177)	364,036
Property, plant and equipment, net	—	2,472,367	102,294	—	2,574,661
Deferred charges, net	3,198	56,022	27,362	(51,309)	35,273
Intercompany receivable	1,751,046	186,054	59,413	(1,996,513)	—
Investment in subsidiaries	785,472	8,602	—	(794,074)	—
Other assets	1,743	6,648	2,055	—	10,446
Total assets	$2,541,481	$3,037,262	$252,746	$(2,847,073)	$2,984,416
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$34,214	$7,519	$(5,991)	$35,742
Accrued interest	14,795	—	—	—	14,795
Accrued payroll and benefits	—	10,944	452	—	11,396
Other accrued liabilities	—	16,989	6,623	—	23,612
Total current liabilities	14,795	62,147	14,594	(5,991)	85,545
Long-term debt, net of original issue discount of $41,600 and deferred financing costs of $13,119	1,070,281	—	—	—	1,070,281
Deferred tax liabilities, net	—	381,619	—	—	381,619
Intercompany payables	6,164	1,801,830	247,615	(2,055,609)	—
Other liabilities	—	808	—	—	808
Total liabilities	1,091,240	2,246,404	262,209	(2,061,600)	1,538,253
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; 35,985 shares issued and outstanding	360	—	—	—	360
Additional paid-in capital	748,043	37,978	8,602	(46,582)	748,041
Retained earnings	701,838	752,761	(13,870)	(738,891)	701,838
Accumulated other comprehensive loss	—	119	(4,195)	—	(4,076)
Total stockholders' equity	1,450,241	790,858	(9,463)	(785,473)	1,446,163
Total liabilities and stockholders' equity	$2,541,481	$3,037,262	$252,746	$(2,847,073)	$2,984,416

Table of Contents

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

Condensed Consolidating Statement of Operations
(In thousands)

	Three Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	$—	$ 50,798	$ 1,467	$ (338)	$ 51,927
Costs and expenses:					
Operating expenses	—	26,282	3,414	(321)	29,375
Depreciation	—	22,188	1,279	—	23,467
Amortization	—	4,269	311	—	4,580
General and administrative expenses	36	7,542	1,468	(15)	9,031
	36	60,281	6,472	(336)	66,453
Gain on sale of assets	—	81	—	—	81
Operating loss	(36)	(9,402)	(5,005)	(2)	(14,445)
Other income (expense):					
Interest income	—	259	142	—	401
Interest expense	(12,820)	—	—	—	(12,820)
Equity in earnings (losses) of consolidated subsidiaries	(3,647)	—	—	3,647	—
Other income (expense), net	—	(790)	2,381	1	1,592
	(16,467)	(531)	2,523	3,648	(10,827)
Income (loss) before income taxes	(16,503)	(9,933)	(2,482)	3,646	(25,272)
Income tax benefit	—	(7,279)	(1,490)	—	(8,769)
Net income (loss)	$(16,503)	$ (2,654)	$ (992)	$ 3,646	$ (16,503)

Condensed Consolidating Statement of Comprehensive Income (Loss)
(In thousands)

	Three Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	$(16,503)	$ (2,654)	$ (992)	$ 3,646	$ (16,503)
Other comprehensive income:					
Foreign currency translation loss	—	(3)	(905)	—	(908)
Total comprehensive income (loss)	$(16,503)	$ (2,657)	$ (1,897)	$ 3,646	$ (17,411)

Table of Contents

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

Condensed Consolidating Statement of Operations
(In thousands)

	Nine Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	$ —	$ 171,034	$ 9,386	$ 2,000	$ 182,420
Costs and expenses:					
Operating expenses	—	89,666	12,525	1,943	104,134
Depreciation	—	65,040	3,258	—	68,298
Amortization	—	15,671	1,004	—	16,675
General and administrative expenses	148	26,978	2,901	57	30,084
	148	197,355	19,688	2,000	219,191
Gain on sale of assets	—	36	—	—	36
Operating loss	(148)	(26,285)	(10,302)	—	(36,735)
Other income (expense):					
Interest income	—	732	432	—	1,164
Interest expense	(34,886)				