HORNBECK OFFSHORE SERVICES INC /LA
Form 10-Q
May 11, 2009
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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 March 31, 2009

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	**(I.R.S. Employer**
incorporation or organization)	**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 x 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 x	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 x

The total number of shares of common stock, par value $.01 per share, outstanding as of March 31, 2009 was 25,958,998.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2009

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,909	$ 20,216
Accounts receivable, net of allowance for doubtful accounts of $2,045 and $2,135, respectively	71,050	87,942
Other receivables, net	9,580	13,865
Other current assets	16,582	12,203
Total current assets	118,121	134,226
Property, plant and equipment, net	1,486,521	1,405,340
Deferred charges, net	37,519	37,972
Other assets	17,590	18,205
Total assets	$ 1,659,751	$ 1,595,743
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 22,072	$ 16,693
Accrued interest	7,706	2,110
Accrued payroll and benefits	7,346	10,078
Deferred revenue	7,651	21,720
Current taxes payable	4,100	13,990
Other accrued liabilities	11,964	3,566
Total current liabilities	60,839	68,157
Revolving credit facility	150,000	125,000
Long-term debt, net of original issue discount of $54,034 and $56,481, respectively	495,966	493,519
Deferred tax liabilities, net	185,009	169,987
Other liabilities	2,644	2,180
Total liabilities	894,458	858,843
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; 25,959 and 25,920 shares issued and outstanding, respectively	260	259
Additional paid-in-capital	398,922	397,593
Retained earnings	365,919	338,818
Accumulated other comprehensive income	192	230

Total stockholders equity	765,293	736,900
Total liabilities and stockholders equity	$ 1,659,751	$ 1,595,743

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	2009	**2008**
	(Unaudited)	
Revenues	$ 109,647	$ 97,521
Costs and expenses:		
Operating expenses	40,571	39,795
Depreciation	10,145	7,462
Amortization	5,003	4,727
General and administrative expenses	8,762	8,577
	64,481	60,561
Gain on sale of assets	245	
Operating income	45,411	36,960
Other income (expense):		
Interest income	139	992
Interest expense	(2,731)	(2,546)
Other income (expense), net	(240)	13
	(2,832)	(1,541)
Income before income taxes	42,579	35,419
Income tax expense	(15,478)	(12,790)
Net income	$ 27,101	$ 22,629
Basic earnings per common share	$ 1.04	$ 0.88
Diluted earnings per common share	$ 1.01	$ 0.84
Weighted average basic shares outstanding	25,942	25,783
Weighted average diluted shares outstanding	26,803	26,938

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Three Months Ended March 31, 2009 (Unaudited)	Three Months Ended March 31, 2008 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 27,101	$ 22,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,145	7,462
Amortization	5,003	4,727
Stock-based compensation expense	2,657	2,969
Provision for bad debts	(90)	103
Deferred tax expense	8,506	9,504
Amortization of deferred financing costs	2,989	2,814
Gain on sale of assets	(245)	
Equity (income) loss from investment	225	(25)
Changes in operating assets and liabilities:		
Accounts receivable	16,965	10,117
Other receivables and current assets	(51)	966
Deferred drydocking charges	(4,953)	(4,068)
Accounts payable	(8,918)	1,045
Accrued liabilities and other liabilities	(5,312)	(3,725)
Accrued interest	5,596	5,643
Net cash provided by operating activities	59,618	60,161
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for MPSV program	(37,674)	(111,704)
Costs incurred for OSV newbuild program #4	(42,669)	(37,029)
Costs incurred for TTB newbuild program #2		(4,150)
Net proceeds from sale of assets	937	
Vessel capital expenditures	(1,784)	(8,037)
Non-vessel capital expenditures	(2,774)	(22,158)
Net cash used in investing activities	(83,964)	(183,078)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from borrowings under revolving facility	25,000	
Deferred financing costs	(6)	
Net cash proceeds from other shares issued	83	571
Net cash provided by financing activities	25,077	571
Effects of exchange rate changes on cash	(38)	1
Net increase (decrease) in cash and cash equivalents	693	(122,345)
Cash and cash equivalents at beginning of period	20,216	173,552
Cash and cash equivalents at end of period	$ 20,909	$ 51,207

SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Cash paid for interest	$ 590	$ 50
Cash paid for income taxes	$ 12,365	$ 3,285

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The quarterly financial statements should be read in conjunction with the 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, 2008. The results of operations for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Certain amounts reported in prior periods have been reclassified or adjusted to conform to the 2009 presentation as further discussed below in Recent Accounting Pronouncements.

The consolidated balance sheet at December 31, 2008 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.

Recent Accounting Pronouncements

On May 9, 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). APB 14-1 specifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. In general, paragraph 12 of Opinion 14 precludes considering cash proceeds from the issuance of specified types of convertible debt instruments as attributable to the conversion feature. APB 14-1 nullifies EITF No. 90-19, Convertible Bonds with Issuer Option to Settle for Cash upon Conversion, and EITF No. 03-7, Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19).

APB 14-1 requires that the liability and equity components of a convertible debt instrument within the scope of the FSP be accounted for separately so that the entity s accounting will reflect additional non-cash interest expense to match the nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. APB 14-1 requires retrospective application to all periods and was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted APB 14-1 effective January 1, 2009 and applied this standard retrospectively. The impact of APB 14-1 has resulted in a material increase to non-cash interest expense for financial statements covering the periods ended December 31, 2006

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

through December 31, 2013. The convertible note hedge transactions expire at the close of trading on November 15, 2013, which is the date that the convertible notes are first putable by the convertible note holders.

For the quarter ended March 31, 2009, the impact of incremental non-cash interest expense on the Company s income before taxes, net income and diluted earnings per share was $0.7 million, $0.5 million and $0.02, respectively, related to its adoption of APB 14-1. The table below reflects the Company s retrospective adoption of APB 14-1 as of January 1, 2009. These financial captions summarize the impact of APB 14-1 on the Company s balance sheet as of December 31, 2008 and consolidated income statement and statement of cash flow for the three month period ended March 31, 2008. (in thousands, except per share data):

	December 31, 2008 As Reported	APB 14-1 Adjustment	December 31, 2008 As Adjusted
Balance Sheet:			
Assets:			
Property, plant and equipment, net	$ 1,394,643	$ 10,697	$ 1,405,340
Total assets	1,585,046	10,697	1,595,743
Liabilities:			
Long-term debt	$ 549,602	$ (56,083)	$ 493,519
Deferred tax liabilities	145,729	24,258	169,987
Total liabilities	890,668	(31,825)	858,843
Equity:			
Additional paid-in-capital	$ 349,427	$ 48,166	$ 397,593
Retained earnings	344,462	(5,644)	338,818
Total equity	694,378	42,522	736,900

	March 31, 2008 As Reported	APB 14-1 Adjustment	March 31, 2008 As Adjusted
Income Statement:			
Interest expense, net (1)	$ 1,840	$ 706	$ 2,546
Income before income tax	36,125	(706)	35,419
Income tax expense	13,042	(252)	12,790
Net Income	23,083	(454)	22,629
Diluted earnings per share	0.86	(0.02)	0.84
Statement of Cash Flow:			
Net cash provided by operating activities	$ 58,582	$ 1,579	$ 60,161
Net cash used in investing activities	(181,499)	(1,579)	(183,078)

(1) Interest expense, net excludes interest that was capitalized as part of ongoing newbuild construction or conversion programs.

2. Earnings Per Share

Basic earnings per common share was calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share was calculated by dividing net income by the weighted average number of common shares outstanding during the year plus the effect of dilutive stock options. Weighted

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31,	
	2009	2008
Net income	$ 27,101	$ 22,629
Weighted average number of shares of common stock outstanding	25,942	25,783
Add: Net effect of dilutive stock options (1)(2)	861	1,155
Adjusted weighted average number of shares of common stock outstanding (3)	26,803	26,938
Earnings per common share:		
Basic	$ 1.04	$ 0.88
Diluted	$ 1.01	$ 0.84

(1) Stock options representing rights to acquire 429 and 67 shares of common stock for the three months ended March 31, 2009 and 2008, respectively, were excluded from the calculation of diluted earnings per share, because the effect was anti-dilutive after considering the exercise price of the options in comparison to the average market price, proceeds from exercise, taxes, and related unamortized compensation.

(2) As of March 31, 2009 and 2008, the 1.625% 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. See Note 4 for further information.

(3) Dilutive restricted stock is expected to fluctuate from quarter to quarter depending the Company s performance compared to a predetermined set of performance criteria. See Note 5 for further information regarding certain of the Company s restricted stock awards.

3. Long-Term Debt

As of March 31, 2009, the Company had total debt of $646.0 million, net of original issue discount of $54.0 million. The Company s debt is comprised of $299.6 million of its 6.125% senior notes due 2014, or senior notes, $196.4 million, net of implied original issue discount under APB 14-1, of its 1.625% convertible senior notes due 2026 and $150.0 million in borrowings under its senior secured revolving credit facility due 2011. The effective interest rate on the senior notes is 6.38% with semi-annual cash interest payments of $9.2 million due and payable each June 1 and December 1. The $250.0 million in face amount of convertible senior notes bear interest at an annual coupon rate of 1.625% with semi-annual cash interest payments of $2.0 million due May 15 and November 15, declining to 1.375%, or $1.7 million semi-annually, beginning on November 15, 2013. Under the Company s revolving credit facility, it has the option of borrowing at a variable rate of interest equal to either (i) the greater of the Prime Rate or the Federal Funds Effective Rate plus $^1/_2$ of 1% or (ii) the London Interbank Offered Rate, or LIBOR; plus in each case an applicable margin. The applicable margin for each base rate is determined by a pricing grid, which is based on the Company s leverage ratio, as defined in the credit agreement governing its revolving credit facility. Unused commitment fees are payable quarterly at the annual rate of 17.5 to 30.0 basis points of the unused portion of the $250.0 million borrowing base of the revolving credit facility, based on the defined leverage ratio. As of March 31, 2009, the average interest rate on the Company s revolving credit facility was approximately 1.5%.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized Interest

Interest expense excludes capitalized interest related to the construction or conversion of vessels in the approximate amounts of $6.4 million and $4.4 million for the three months ended March 31, 2009 and 2008, respectively.

4. Incentive Compensation

Stock-Based Incentive Compensation Plan

The Company has a stock-based incentive compensation plan covering a maximum of 3.5 million shares of common stock that allows the Company to grant stock options, restricted stock awards and restricted stock unit awards, or collectively restricted stock, and stock appreciation rights to employees and directors.

During the three months ended March 31, 2009, the Company granted time-based restricted stock unit awards, or RSUs, and performance-based RSUs. Time-based RSUs were granted to directors and a combination of time-based and performance-based RSUs were granted to executive officers and certain shore-side employees of the Company. The shares to be received under the performance-based RSUs are calculated based on the Company s achievement of any one of four pre-determined performance criteria over a three-year period as defined by the RSU agreement governing such awards. The actual number of shares that could be received by these award recipients can range from 0% to 100% of the Company s base share awards depending on the performance goals attained by the Company.

Compensation expense related to restricted stock is recognized over the period the restrictions lapse, from one to four years. The fair value of the Company s performance-based restricted stock, which is determined using a Monte Carlo simulation, is applied to the total shares that are expected to fully vest and is amortized over the vesting period based on the Company s internal performance measured against pre-determined criteria or relative performance compared to peers, as applicable. The compensation expense related to time-based restricted stock unit awards, which is amortized over a vesting period from one to four years, 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.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to the RSUs granted in 2009, the Company granted performance-based and time-based RSUs in 2006, 2007 and 2008. The performance-based RSU grants issued in 2006 were eligible for vesting in February 2009, but the Company did not meet the vesting criteria and such RSUs were cancelled. The related stock-based compensation expense charges from the 2007, 2008 and 2009 RSU grants and the financial impact such grants have on the Company s operating results are reflected in the table below (in thousands, except for per share data):

	Three Months Ended March 31,	
	2009	2008
Income before taxes	$ 2,657	$ 2,969
Net income	$ 1,689	$ 1,897
Earnings per common share:		
Basic	$ 0.07	$ 0.07
Diluted	$ 0.06	$ 0.07

In addition, the Company capitalized approximately $0.3 million and $0.4 million of stock-based compensation expense as part of its ongoing newbuild construction programs and general corporate projects for the three months ended March 31, 2009 and 2008, respectively.

5. 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 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. In February 2009, the terms of entry for both of the Company s segments contained an annual aggregate deductible (AAD) for which the Company remains responsible. 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 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 March 31, 2009, the Company s claims incurred under its P&I Club policies have not exceeded the AAD for the current policy year.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables

In April 2008, Superior Offshore International, Inc., or Superior Offshore, announced that it filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. Superior Offshore was the charterer of the *HOS Achiever*, a vessel that the Company acquired from Superior Offshore in January 2008, for the period October 1, 2008 through March 31, 2009. In early January 2009, Superior Offshore obtained an order from the Bankruptcy Court approving the rejection of the *HOS Achiever* charter pursuant to the provisions of section 365 of the Bankruptcy Code. The rejection of the *HOS Achiever* charter constituted a breach of the charter. The Company filed a proof of claim in the Superior Offshore bankruptcy case for payment of rejection damages associated with the breach of the charter. In late January 2009, Superior Offshore obtained confirmation of its Chapter 11 Plan of Reorganization. The Company believes that it has mitigated its risk of loss under the *HOS Achiever* time charter through funds received under a letter of credit provided to the Company in advance by Superior Offshore. In addition, as permitted by the time charter with Superior Offshore, the *HOS Achiever* was actively marketed and time chartered to other domestic and international customers on various dates during the six-month Superior Offshore time charter period. During the three months ended March 31, 2009, the Company recognized approximately $4.2 million ($2.7 million after-tax, or $0.10 per diluted share) of revenue related to the Superior Offshore time charter. Time charter billings from October 1, 2008 through March 31, 2009 for the *HOS Achiever* to companies other than Superior Offshore were offset against amounts collectible from Superior Offshore. As of March 31, 2009, other receivables, net of approximately $9.6 million primarily represent amounts billed to Superior Offshore under the Company s time charter agreement for the *HOS Achiever* as well as time charter payments for a conventional OSV and shore-base services, which are partially offset by proceeds from the letter of credit. The vessel is currently working for a major integrated oil company under a time charter for an approximate term of five months, with renewal options, in support of an ultra-deepwater project in the Gulf of Mexico.

7. Segment Information

The Company provides marine transportation and logistics services through two business segments. The Company primarily operates new generation OSVs and MPSVs in the GoM and other select domestic and international markets and operates a shore-base facility in Port Fourchon, Louisiana through its Upstream segment. The Upstream segment principally supports complex exploration and production projects by transporting cargo to offshore drilling rigs and production facilities and provides support for oilfield and non-oilfield specialty services, including military applications. The Downstream segment primarily operates ocean-going tugs and tank barges in the northeastern United States, the domestic GoM, the Great Lakes and Puerto Rico. The Downstream segment provides coastwise transportation of refined and bunker grade petroleum products as well as non-traditional downstream services, such as support of deepwater well testing and other specialty applications for the Company s upstream customers.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows reportable segment information for the three months ended March 31, 2009 and 2008, reconciled to consolidated totals and prepared on the same basis as the Company s consolidated financial statements (in thousands).

	Three Months Ended March 31, 2009	2008
Revenues:		
Upstream		
Domestic	$ 71,064	$ 53,881
Foreign (1)	19,512	13,571
	90,576	67,452
Downstream		
Domestic	18,833	27,903
Foreign (1)	238	2,166
	19,071	30,069
Total	$ 109,647	$ 97,521
Operating Expenses:		
Upstream	$ 29,001	$ 25,779
Downstream	11,570	14,016
Total	$ 40,571	$ 39,795
Depreciation:		
Upstream	$ 7,314	$ 4,732
Downstream	2,831	2,730
Total	$ 10,145	$ 7,462
Amortization:		
Upstream	$ 3,186	$ 2,507
Downstream	1,817	2,220
Total	$ 5,003	$ 4,727
General and Administrative Expenses:		
Upstream	$ 6,923	$ 5,404
Downstream	1,839	3,173
Total	$ 8,762	$ 8,577
Gain on sale of assets:		

Upstream	$	$
Downstream	245	
Total	$ 245	$
Operating Income:		
Upstream	$ 44,152	$ 29,030
Downstream	1,259	7,930
Total	$ 45,411	$ 36,960
Capital Expenditures:		
Upstream	$ 84,134	$ 177,012
Downstream	384	5,150
Corporate	383	916
Total	$ 84,901	$ 183,078

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of March 31, 2009	As of December 31, 2008
Identifiable Assets:		
Upstream	$ 1,384,420	$ 1,319,392
Downstream	253,741	254,574
Corporate	21,590	21,777
Total	$ 1,659,751	$ 1,595,743
Long-Lived Assets:		
Upstream		
Domestic	$ 1,127,401	$ 1,042,540
Foreign (1)	125,662	126,709
	1,253,063	1,169,249
Downstream		
Domestic	208,751	223,669
Foreign (1)(2)	16,279	4,431
	225,030	228,100
Corporate	8,428	7,991
Total	$ 1,486,521	$ 1,405,340

(1) The Company s vessels conduct operations in international areas. Vessels will routinely move to and from international and domestic operating areas. As these assets are highly mobile, the long-lived assets reflected above represent the assets that were present in international areas as of March 31, 2009 and 2008, respectively.

(2) Included are amounts applicable to the Puerto Rico downstream operations, even though Puerto Rico is considered a possession of the United States and the Jones Act applies to vessels operating in Puerto Rican waters.

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited consolidated financial statements and notes to unaudited consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2008. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements. See Forward Looking Statements for additional discussion regarding risks associated with forward-looking statements. In this Quarterly Report on Form 10-Q, company, we, us, our or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated.

References in this Quarterly Report on Form 10-Q to OSVs mean offshore supply vessels; to TTB mean ocean-going tugs and tank barges; to MPSVs mean multi-purpose support vessels; to AHTS mean anchor-handling towing supply; to ROVs mean remotely operated vehicles; to DP-1 , DP-2 and DP-3 mean various classifications of dynamic positioning systems on new generation vessels to automatically maintain a vessel's position and heading; to flotel mean accommodations services, such as lodging, meals and office space; to deepwater mean offshore areas, generally 1,000 to 5,000 in depth; to ultra-deepwater mean offshore areas, generally more than 5,000 in depth; to deep well mean a well drilled to a true vertical depth of 15,000 or greater; to new generation, when referring to OSVs, mean 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; and to conventional, when referring to OSVs, mean vessels that are at least 20 years old, are generally less than 200 in length or carry less than 1,500 dead weight tons of cargo when originally built and primarily operate on the Continental Shelf.

General

Outlook

Generally, the continued weakness in the overall economy and lack of liquidity in the credit markets are affecting the spending patterns of our customers and are likely to continue to soften demand for our services. The extent of such weakened demand and how long it may last is not known. In addition, lack of liquidity and low oil and natural gas prices may impact the continued viability of projects contemplated by our customers. Moreover, the construction of deepwater drilling rigs, which are a demand driver for our Upstream segment, may be cancelled or delayed in the current climate.

Upstream Segment

Our average new generation OSV dayrates for the first quarter of 2009 surpassed $23,000 and our average OSV utilization was in the mid-90% range. However, the significant drop in the price of oil and natural gas since its peak in 2008 is expected to impact our effective dayrates for the remainder of 2009. While the exploration and production budgets of

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our upstream customers are anticipated to be lower in 2009 than in 2008, we expect that currently commissioned deepwater, ultra-deepwater and other longer-lead time offshore projects will be less impacted by budget reductions. In addition, notwithstanding any changes to our current OSV market demand drivers, we expect the re-pricing of four expiring OSV contracts, to current spot dayrate levels, could unfavorably impact our fleetwide average dayrates during the second quarter of 2009. Despite these recent trends, we expect our average new generation OSV dayrates to be in the range of $20,000 to $22,000 for the full-year 2009.

Twenty-three of our OSVs are currently operating under long-term contracts with expiration dates ranging from June 2009 through March 2013. Notably, of the nine new generation OSVs yet to be placed in service under our fourth OSV newbuild program, four of such OSVs have already been committed to multi-year contracts while they are still under construction. The long-term contracts for our supply vessels are consistent with those used in the industry and are typically either fixed for a term of one or more years or tied to the duration of a long-term contract for a drilling rig for which the vessel provides services. These contracts generally contain provisions governing insurance, reciprocal indemnifications, performance requirements and, in certain instances, dayrate escalation terms and renewal options.

During the first quarter of 2009, we have experienced increased OSV spot dayrate volatility in the GoM, particularly for conventional OSVs and our 200 class and 220 class new generation OSVs. In recognition of these market conditions, we elected to stack five of our six conventional OSVs on various dates in December 2008 and early 2009. These older vessels were acquired in August 2007 and are considered non-core assets.

As of March 31, 2009, our 42 new generation OSVs, two MPSVs and one active conventional OSV were operating in domestic and international areas as noted in the following table:

Operating Areas	
Domestic	
GoM	33
Other U.S. coastlines	4
	37
Foreign	
Trinidad	1
Mexico	5
Qatar	2
	8
Total Upstream Vessels	45

Downstream Segment

Our Downstream fleet is comprised of a mix of nine double-hulled tank barges, 12 single-hulled tank barges and 16 ocean-going tugs. Effective January 1, 2009, one of our larger single-hulled barges, the *Energy 11102,* reached its OPA 90 phase-out date and as such was retired from active service. In June 2009, another single-hulled barge, the *Energy 11101,* will reach its OPA 90 phase-out date and will retire from active service.

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In recognition of the soft market conditions for our single-hulled equipment that began early in the second quarter of 2008, we have stacked seven single-hulled tank barges and four lower horsepower tugs on various dates since the first quarter of 2008. In addition, we have continued our tug rationalization strategy with the recent sale of one of our older, lower-horsepower tugs, the *Stapleton Service*, in March 2009. The unfavorable revenue impact of stacking barges and tugs was partially offset by the reduced operating expenses associated with the lower cost of maintaining stacked equipment, including the reduction in cost for three in-chartered tugs whose contracts were not renewed.

As of March 31, 2009, our active tank barges were operating in domestic and international areas as noted in the following table:

Operating Areas	
Domestic	
New York Harbor	6
GoM	5
The Great Lakes	1
	12
Foreign	
Puerto Rico	1
	1
Total Downstream vessels	13

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 based upon available information. 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, 2008 and Note 1 to our unaudited consolidated financial statements included in this Form 10-Q.

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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 new generation OSVs and tank barges generate substantially all of our revenues and operating profit. Excluded from the information below is the results of operations for our MPSVs, conventional OSVs, one retired tank barge, our shore-base facility, and vessel management services.

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Offshore Supply Vessels:		
Average number of new generation OSVs (1)	40.6	35.0
Average new generation OSV fleet capacity (deadweight)	96,869	80,903
Average new generation vessel capacity (deadweight)	2,389	2,312
Average new generation utilization rate (2)	93.0%	92.1%
Average new generation dayrate (3)	$ 23,085	$ 21,020
Effective dayrate (4)	$ 21,469	$ 19,359
Tugs and Tank Barges:		
Consolidated:		
Average number of tank barges (5)	20.0	20.3
Average fleet capacity (barrels) (5)	1,633,412	1,696,158
Average barge size (barrels)	81,671	83,436
Average utilization rate (2)	56.7%	85.6%
Effective utilization rate (7)	81.0%	85.6%
Average dayrate (6)	$ 18,695	$ 19,059
Effective dayrate (4)	$ 10,600	$ 16,315
Double-hulled tank barges:		
Average utilization rate (2)	80.0%	91.1%
Average dayrate (6)	$ 20,406	$ 21,781
Effective dayrate (4)	$ 16,325	$ 19,842
Single-hulled tank barges:		
Average utilization rate (2)	37.6%	81.8%
Effective utilization rate (7)	82.7%	81.8%
Average dayrate (6)	$ 15,710	$ 16,937
Effective dayrate (4)	$ 5,907	$ 13,854

(1) We operated 42 new generation OSVs as of March 31, 2009. For the three months ended March 31, 2009, the average number of new generation OSVs above includes the *HOS Mystique*, *HOS Lode Star,* and *HOS Coral,* which are three newly constructed OSVs that were placed in service under our fourth OSV newbuild program in January 2009, February 2009, and March 2009, respectively.

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

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

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

(5) We owned 21 tank barges as of March 31, 2009. Effective January 1, 2009, the *Energy 11102,* which is excluded from the above table, reached its OPA 90 phase-out date and was removed from active service.

(6) Average dayrates represent 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.

(7) Effective utilization rate is based on a denominator comprised only of vessel-days available for service by the active fleet, which excludes the impact of stacked vessel days. As of March 31, 2009, the following single-hulled tank barges were stacked: the *Energy 2201*, *Energy 6501*, *Energy 6502, Energy 6504, Energy 7001,* and *Energy 7002.* Subsequent to March 31, 2009, we elected to stack an additional single-hulled tank barge, the *Energy 6503.* Vessels are considered utilized when they are generating revenues.

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 and amortization. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as comparative measure.

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

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

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

The following table provides the detailed components of EBITDA as we define that term for the three months ended March 31, 2009 and 2008, respectively (in thousands).

	Three Months Ended March 31,	
	2009	**2008**
Components of EBITDA:		
Net income	$ 27,101	$ 22,629
Interest, net:		
Debt obligations	2,731	2,546
Interest income	(139)	(992)
Total interest, net	2,592	1,554
Income tax expense	15,478	12,790
Depreciation	10,145	7,462
Amortization	5,003	4,727
EBITDA	$ 60,319	$ 49,162

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The following table reconciles EBITDA to cash flows provided by operating activities for the three months ended March 31, 2009 and 2008, respectively (in thousands).

	Three Months Ended March 31,	
	2009	**2008**
EBITDA Reconciliation to GAAP:		
EBITDA	$ 60,319	$ 49,162
Cash paid for deferred drydocking charges	(4,953)	(4,068)
Cash paid for interest	(590)	(50)
Cash paid for taxes	(12,365)	(3,285)
Changes in working capital	14,660	15,367
Stock-based compensation expense	2,657	2,969
Changes in other, net	(110)	66
Cash flows provided by operating activities	$ 59,618	$ 60,161

In addition, we also make certain adjustments to EBITDA for loss on early extinguishment of debt, stock-based compensation e