

HORNBECK OFFSHORE SERVICES INC /LA
Form 10-Q
November 09, 2018

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, 2018

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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 37,595,348.

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018
TABLE OF CONTENTS

<u>PART I—FINANCIAL INFORMATION</u>	<u>1</u>
<u>Item 1—Financial Statements</u>	<u>1</u>
<u>Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3—Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4—Controls and Procedures</u>	<u>37</u>
<u>PART II—OTHER INFORMATION</u>	<u>38</u>
<u>Item 1—Legal Proceedings</u>	<u>38</u>
<u>Item 1A—Risk Factors</u>	<u>38</u>
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3—Defaults Upon Senior Securities</u>	<u>38</u>
<u>Item 4—Mine Safety Disclosures</u>	<u>38</u>
<u>Item 5—Other Information</u>	<u>39</u>
<u>Item 6—Exhibits</u>	<u>41</u>
<u>SIGNATURE</u>	<u>45</u>

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, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 108,066	\$ 186,849
Accounts receivable, net of allowance for doubtful accounts of \$1,162 and \$6,054, respectively	50,133	44,702
Other current assets	14,033	16,890
Total current assets	172,232	248,441
Property, plant and equipment, net	2,456,262	2,501,013
Deferred charges, net	19,900	12,812
Other assets	6,345	6,612
Total assets	\$2,654,739	\$ 2,768,878
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$22,545	\$ 16,196
Accrued interest	15,606	14,734
Accrued payroll and benefits	14,892	9,475
Current portion of long-term debt, net of original issue discount of \$3,726 and deferred financing costs of \$835	95,087	—
Other accrued liabilities	13,065	8,457
Total current liabilities	161,195	48,862
Long-term debt, including deferred gain of \$16,655 and \$18,911, and net of original issue discount of \$1,058 and \$7,862 and deferred financing costs of \$6,773 and \$10,134, respectively	989,088	1,080,826
Deferred tax liabilities, net	170,821	197,465
Other liabilities	3,736	3,801
Total liabilities	1,324,840	1,330,954
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; 37,595 and 37,144 shares issued and outstanding, respectively	376	371
Additional paid-in-capital	761,385	760,278
Retained earnings	573,670	668,598
Accumulated other comprehensive income (loss)	(5,532)	8,677
Total stockholders' equity	1,329,899	1,437,924
Total liabilities and stockholders' equity	\$2,654,739	\$ 2,768,878

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

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Revenues:				
Vessel revenues	\$49,401	\$45,637	\$132,016	\$110,825
Non-vessel revenues	9,067	8,029	26,470	24,346
	58,468	53,666	158,486	135,171
Costs and expenses:				
Operating expenses	38,203	30,082	109,030	89,385
Depreciation	24,843	24,682	74,121	74,038
Amortization	2,725	2,473	6,973	9,463
General and administrative expenses	15,134	12,899	40,255	36,573
	80,905	70,136	230,379	209,459
Gain (loss) on sale of assets	25	(197)	55	(178)
Operating loss	(22,412)	(16,667)	(71,838)	(74,466)
Other income (expense):				
Gain on early extinguishment of debt	—	—	—	15,478
Interest income	531	447	1,693	1,312
Interest expense	(16,548)	(11,956)	(46,894)	(39,194)
Other income (expense), net	23	106	(41)	(163)
	(15,994)	(11,403)	(45,242)	(22,567)
Loss before income taxes	(38,406)	(28,070)	(117,080)	(97,033)
Income tax benefit	(7,223)	(9,120)	(22,152)	(30,696)
Net loss	\$(31,183)	\$(18,950)	\$(94,928)	\$(66,337)
Loss per share:				
Basic loss per common share	\$(0.83)	\$(0.51)	\$(2.53)	\$(1.80)
Diluted loss per common share	\$(0.83)	\$(0.51)	\$(2.53)	\$(1.80)
Weighted average basic shares outstanding	37,595	37,013	37,479	36,794
Weighted average diluted shares outstanding	37,595	37,013	37,479	36,794

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

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Net loss	\$(31,183)	\$(18,950)	\$(94,928)	\$(66,337)
Other comprehensive income (loss):				
Foreign currency translation income (loss)	(2,994)	2,743	(14,209)	1,536
Total comprehensive loss	\$(34,177)	\$(16,207)	\$(109,137)	\$(64,801)

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,	
	2018	2017
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(94,928)	\$(66,337)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	74,121	74,038
Amortization	6,973	9,463
Stock-based compensation expense	8,922	5,740
Gain on early extinguishment of debt	—	(15,478)
Provision for bad debts	88	3,932
Deferred tax benefit	(22,866)	(33,766)
Amortization of deferred financing costs	3,298	7,013
(Gain) loss on sale of assets	(55)	178
Changes in operating assets and liabilities:		
Accounts receivable	(30,347)	(23,898)
Other current and long-term assets	3,060	4,062
Deferred drydocking charges	(7,233)	(6,950)
Accounts payable	29,833	11,157
Accrued liabilities and other liabilities	2,487	2,697
Accrued interest	871	(1,054)
Net cash used in operating activities	(25,776)	(29,203)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for acquisition of offshore supply vessels	(40,868)	—
Costs incurred for OSV newbuild program	(3,670)	(12,363)
Net proceeds from sale of assets	82	34
Vessel capital expenditures	(7,295)	(1,299)
Non-vessel capital expenditures	(107)	(1,468)
Net cash used in investing activities	(51,858)	(15,096)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Credit Facility	—	980
Repurchase of senior notes due 2020	—	(5,057)
Repurchase of convertible notes	—	(49,631)
Deferred financing costs	—	(5,636)
Shares withheld for payment of employee withholding taxes	(536)	(575)
Net cash proceeds from other shares issued	260	258
Net cash used in financing activities	(276)	(59,661)
Effects of exchange rate changes on cash	(873)	(231)
Net decrease in cash and cash equivalents	(78,783)	(104,191)
Cash and cash equivalents at beginning of period	186,849	217,027
Cash and cash equivalents at end of period	\$108,066	\$112,836
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Cash paid for interest	\$44,936	\$40,028
Cash paid for income taxes	\$933	\$1,044
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		

Exchange of convertible notes for first-lien term loan	\$—	\$127,096
--	-----	-----------

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

4

Table of ContentsHORNBECK 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, 2017. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The consolidated balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. Recent Accounting Pronouncements

Standard	Description	Required Date of Adoption	Effect on the financial statements and other significant matters
Standards that have been adopted			
ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606)	This standard requires entities to recognize revenues in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 requires retrospective application.	January 1, 2018	This ASU replaces most existing revenue recognition guidance in U.S. GAAP. The Company adopted ASU 2014-09 on January 1, 2018 under the modified retrospective method. Based on the Company's review of its open revenue-related contracts on the date of adoption, it was determined that there was no cumulative effect of applying the new standard and therefore no adjustment to the opening retained earnings balance was needed as of January 1, 2018. See Note 3 - Revenues from Contracts with Customers for additional information.
ASU No. 2017-01, "Business Combinations" (Topic 805): Clarifying the Definition of a Business	This standard provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires prospective application.	January 1, 2018	The Company adopted ASU No. 2017-01 on January 1, 2018 under the prospective application. This adoption had no impact on its consolidated financial statements.

Standards that have not been adopted

<p>ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"</p>	<p>This standard requires measurement and recognition of expected credit losses for financial assets held. ASU No. 2016-13 requires modified retrospective application. Early adoption is permitted.</p>	<p>January 1, 2020</p>	<p>The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.</p>
<p>ASU No. 2016-02, "Leases" (Topic 842)</p>	<p>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.</p>	<p>January 1, 2019</p>	<p>The Company continues to evaluate the impact this new guidance will have on its consolidated financial statements. See further discussion below.</p>
<p>ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"</p>	<p>This standard allows companies to reclassify items in accumulated other comprehensive income to retained earnings for stranded tax effects resulting from The Tax Cuts and Jobs Act.</p>	<p>January 1, 2019</p>	<p>The Company continues to evaluate the impact this new guidance will have on its consolidated financial statements.</p>
<p>ASU No. 2018-09, "Codification Improvements"</p>	<p>This standard provides clarification, corrects errors in and makes minor improvements to various ASC topics. Many of the amendments in this update have transition guidance with effective dates for annual periods beginning after December 15, 2018, and some amendments do not require transition guidance and are effective upon issuance of this update.</p>	<p>January 1, 2019</p>	<p>The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.</p>
<p>ASU No. 2018-11, "Leases" (Topic 842): Targeted Improvements</p>	<p>This standard provides for the election of transition methods between the modified retrospective method and the optional transition relief method. The modified retrospective method is applied to all prior reporting periods presented with a cumulative-effect adjustment recorded in the earliest comparative period while the optional transition relief method is applied beginning in the period of adoption with a cumulative-effect adjustment recorded in such period. Also, this standard allows lessors to elect to not separate non-lease components from the associated lease components if certain criteria are met.</p>	<p>January 1, 2019</p>	<p>The Company continues to evaluate the impact this new guidance will have on its consolidated financial statements. See further discussion below.</p>

ASC 842, Leases

Lessor Accounting

In July 2018, the Financial Accounting Standards Board, or FASB, issued ASU 2018-11 that allows for 1) a transition option that will allow companies to not apply the new lease standard in the comparative periods presented in their

financial statements in the year of adoption and will allow the Company to continue to apply legacy guidance, ASC 840 Leases, including its disclosure requirements, for comparative periods presented, and 2) an option for lessors to combine lease and non-lease components contained within the same agreement when certain criteria are met. The Company does not expect a change in the timing or amounts of revenues recognized upon the adoption of this standard.

Lessee Accounting

The primary difference between current accounting standards and ASC 842 is the recognition of right-of-use assets and corresponding liabilities by lessees for those leases classified as operating leases under current accounting standards. The estimated impact of the adoption of this ASC based on the lease arrangements for which the Company is the lessee as of September 30, 2018, will be an increase to assets and liabilities on the Company's financial statements to reflect the right-of-use assets and lease obligations in a range from \$25.0 million to \$30.0 million. The adoption of the new standard is not expected to result in a change in the amount of lease expense currently being recognized.

3. Revenues from Contracts with Customers

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers using the modified retrospective method. The adoption of this standard did not have a material impact on the Company's financial position or results of operations. Accordingly, the Company did not make an adjustment to the opening balance of retained earnings in order to account for the implementation of the new requirements of this standard, and it did not restate prior period information for the effects of the new standard.

The services that are provided by the Company represent a single performance obligation under our contracts that are satisfied at a point in time or over time. Revenues are earned primarily by (1) chartering the Company's vessels, including operation of such vessels, (2) providing vessel management services to third party vessel owners, and (3) providing shore-based port facility services, including rental of land. The services generating these revenue streams are provided to customers based upon contracts that include fixed or determinable prices and do not generally include right of return or other significant post-delivery obligations. The Company's vessel revenues, vessel management revenues and port facility revenues are recognized either at a point in time or over the passage of time when the customer has received or is receiving the benefit from the applicable service. Revenues are recognized when the performance obligations are satisfied in accordance with contractual terms and in an amount that reflects the consideration that the Company expects to be entitled to in exchange for the services rendered or rentals provided. Revenues are recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. Invoices are typically billed to our customers on a monthly basis and payment terms on customer invoices typically range 30 to 60 days.

A performance obligation under contracts with the Company's customers to render services is the unit of account under Topic 606. The Company accounts for services rendered separately if they are distinct and the service is separately identifiable from other items provided to a customer and if a customer can benefit from the services rendered provided on its own or with other resources that are readily available to the

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

customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

As of September 30, 2018, the Company has certain remaining performance obligations representing contracted vessel revenues for which work has not been performed and such contracts have an original expected duration of more than one year. As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations for such contracts was \$13.0 million, of which \$7.5 million and \$5.5 million are expected to be recognized in 2018 and 2019, respectively. The Company has elected to apply the optional exemption for the disclosure of the remaining performance obligations for any of its revenue streams that are expected to have a duration of one year or less and, therefore, such amounts have not been disclosed.

Disaggregation of Revenues

For the three and nine months ended September 30, 2018 and 2017, the Company recognized revenues as follows (in thousands):

	Three Months Ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Vessel revenues	\$49,401	\$45,637	\$132,016	\$110,825
Vessel management revenues	8,039	7,434	23,772	22,207
Shore-based facility revenues	1,028	595	2,698	2,139
	\$58,468	\$53,666	\$158,486	\$135,171

4. Loss Per Share

Basic loss per common share was calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share was calculated by dividing net 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. When reporting a net loss, the Company uses weighted average basic shares outstanding to calculate diluted earnings per share. 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 loss per share (in thousands, except for per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net loss	\$(31,183)	\$(18,950)	\$(94,928)	\$(66,337)
Weighted average number of shares of common stock outstanding	37,595	37,013	37,479	36,794
Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)(3)	—	—	—	—
Weighted average number of dilutive shares of common stock outstanding	37,595	37,013	37,479	36,794
Loss per common share:				
Basic loss per common share	\$(0.83)	\$(0.51)	\$(2.53)	\$(1.80)
Diluted loss per common share	\$(0.83)	\$(0.51)	\$(2.53)	\$(1.80)

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 529 and 602 shares of common stock for the three and nine months ended (1) September 30, 2018 and 990 and 988 shares of common stock for the three and nine months ended September 30, 2017, respectively.

For the nine months ended September 30, 2018 and 2017, 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 (2) 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.

Table of Contents

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

Dilutive unvested restricted stock units are expected to fluctuate from quarter to quarter depending on the (3) Company's performance compared to a predetermined set of performance criteria. See Note 8 to these financial statements for further information regarding certain of the Company's restricted stock grants.

5. 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 second quarter of 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 grouped 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 had sufficient projected undiscounted cash flows to recover the remaining book value of the Company's long-lived assets within such groups. While the Company has not observed any new impairment indicators, the Company has reviewed and updated, as necessary, the assumptions used in determining its undiscounted cash flow projections for each asset group to reflect current market conditions. After reviewing the results of these updated projections, the Company determined that each of its asset groups continue to have sufficient projected undiscounted cash flows to recover the remaining book value of the Company's long-lived assets within such group.

6. Acquisition of Vessels

On May 18, 2018, the Company completed the acquisition of four high-spec Jones Act-qualified OSVs and related equipment from Aries Marine Corporation and certain of its affiliates for \$40.9 million in cash, inclusive of \$4.0 million related to a non-compete intangible asset that is being amortized over the life of such asset, or two years. Also included in this transaction was the cost of fuel and lube inventory and transactions fees. The acquired vessels are all U.S.-flagged and are comprised of two 300 class OSVs and two 280 class OSVs. The Company determined that substantially all of the fair value of the assets acquired are concentrated in a group of similar identifiable assets and, therefore, has accounted for such transaction as an asset acquisition under ASU 2017-01.

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

7. Long-Term Debt

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

	September 30, 2018	December 31, 2017
5.875% senior notes due 2020, net of deferred financing costs of \$1,387 and \$2,061	\$ 365,555	\$ 364,881
5.000% senior notes due 2021, net of deferred financing costs of \$2,415 and \$3,142	447,585	446,858
1.500% convertible senior notes due 2019, net of original issue discount of \$3,726 and \$6,634 and deferred financing costs of \$835 and \$1,486	95,087	91,527
First-lien credit facility due 2023, including deferred gain of \$16,655 and \$18,911, and net of original issue discount of \$1,058 and \$1,228, and deferred financing costs of \$2,971 and \$3,445	175,948	177,560
	1,084,175	1,080,826
Less current maturities	(95,087)	—
	\$ 989,088	\$ 1,080,826

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

	Cash Interest Payments	Payment Dates
5.875% senior notes due 2020	\$ 10,779	April 1 and October 1
5.000% senior notes due 2021	11,250	March 1 and September 1
1.500% convertible senior notes due 2019	747	March 1 and September 1
First-lien credit facility due 2023 (1)	1,310	Variable

(1) The interest rate on the Credit Facility is variable based on the Company's election. The amount reflected in this table is the monthly amount payable based on the 30-day LIBOR interest rate that was elected and in effect on September 30, 2018. Please see further discussion of the variable interest rate below.

First-Lien Credit Facility

The Company's \$300 million first-lien credit facility, or Credit Facility, matures in June 2023 and currently provides for \$136.7 million of additional available liquidity, \$68.0 million of which is required to be drawn by December 31, 2018 with the remaining balance required to be drawn by September 1, 2019. The Company can use draws under the facility for working capital and general corporate purposes, including the acquisition of distressed assets and/or the refinancing of existing debt, subject to, among other things, compliance with certain covenants requiring the Company to maintain access to liquidity (cash and credit availability) of \$25.0 million at all times. The minimum liquidity level required for prepayment of the Company's existing indebtedness and/or certain other restricted payments is \$65.0 million. The Credit Facility is collateralized by 55 domestic high-spec OSVs and MPSVs, including a security interest in two pending MPSV newbuilds, and associated personalty, as well as by certain deposit and securities accounts. Borrowings accrue interest, at the Company's option, at either an adjusted London Interbank Offered Rate (subject to a 1.00% floor) plus an applicable margin or the greatest of (a) the prime rate announced by The Wall Street Journal, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%, and (c) the London Interbank Offered Rate plus, 1%, plus, an applicable a margin.

On March 27, 2018, the Company entered into an amendment with its first-lien lenders to clarify various provisions in and made certain technical revisions to the Credit Facility, primarily dealing with the administrative permissibilities regarding vessel reflagging transactions and permitted acquisition indebtedness, among other matters.

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

The agreement governing the Credit Facility and the indentures governing the Company's 2020 senior notes and 2021 senior notes impose certain 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.

The Company estimates the fair value of its 2020 senior notes, 2021 senior notes, 2019 convertible senior notes and Credit Facility by primarily using quoted market prices. Given the observability of the inputs to these estimates, the Company has assigned a Level 2 of the three-level valuation hierarchy for such outstanding notes and the Credit Facility.

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

	September 30, 2018			December 31, 2017		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
5.875% senior notes due 2020	\$366,942	\$365,555	\$285,297	\$366,942	\$364,881	\$244,714
5.000% senior notes due 2021	450,000	447,585	333,000	450,000	446,858	236,250
1.500% convertible senior notes due 2019	99,647	95,087	89,122	99,647	91,527	74,486
First-lien credit facility due 2023 (1)	163,322	175,948	162,407	163,322	177,560	162,505
	\$1,079,911	\$1,084,175	\$869,826	\$1,079,911	\$1,080,826	\$717,955

(1) The carrying value of the Credit Facility due 2023 includes a deferred gain of \$16,655 less original issue discount and deferred financing costs of \$4,029.

Capitalized Interest

During the first quarter of 2018, the Company notified the shipyard that it was terminating the construction contracts for two vessels in the Company's fifth OSV newbuild program. As a result, the Company did not capitalize any of its interest costs during the three months ended September 30, 2018. Upon recommencement of construction of such vessels, the Company intends to resume capitalization of interest costs related thereto. During the nine months ended September 30, 2018, the Company capitalized approximately \$2.3 million of interest costs related to the construction of vessels. During the three and nine months ended September 30, 2017, the Company capitalized approximately \$2.7 million and \$7.6 million, respectively, of interest costs related to the construction of vessels.

8. 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, 2018, the Company has granted awards covering 4.68 million shares of common stock under such plan. During the nine months ended September 30, 2018, the Company granted 1,527,102 time-based and 939,391 performance-based phantom restricted stock units. The phantom shares to be received under the performance-based phantom restricted stock units are calculated based on the Company's performance compared to two pre-determined criteria, as defined by the phantom restricted stock unit agreements governing such awards. The actual number of performance-based shares that could be received by the award recipients can range from 0% to 150% of such awards granted depending on the Company's performance.

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

The fair value of the Company's performance-based 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 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. 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 phantom restricted stock units granted in 2018, the Company granted performance-based and time-based restricted stock units and phantom restricted stock units in prior years. During the nine months ended September 30, 2018, the Company issued 426,896 shares of common stock due to vestings of restricted stock units and employee purchases under the Company's Employee Stock Purchase Plan.

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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Loss before income taxes	\$4,169	\$2,726	\$8,922	\$5,740
Net loss	\$3,385	\$1,840	\$7,236	\$3,924
Earnings per common share:				
Basic earnings per common share	\$0.09	\$0.05	\$0.19	\$0.11
Diluted earnings per common share	\$0.09	\$0.05	\$0.19	\$0.11

9. Commitments and Contingencies

Vessel Construction

During the first quarter of 2018, the Company notified the shipyard that was constructing the remaining two vessels in the Company's fifth OSV newbuild program that it was terminating the construction contracts for such vessels. The Company intends to work with the performance bond surety to find and contract with a shipyard that can finish construction and deliver such vessels. On October 2, 2018, the shipyard filed suit against the Company in the 22nd Judicial District Court for the Parish of St. Tammany in the State of Louisiana. The Company intends to vigorously defend the shipyard's claims, considers them to be without merit, and will respond to the lawsuit in due course.

The cost of this nearly completed 24-vessel newbuild program, before construction period interest, is expected to be approximately \$1,335.0 million, of which \$2.0 million and \$58.9 million are currently expected to be incurred in the remainder of 2018 and fiscal 2019, respectively. As of the date of termination, these two remaining vessels, both of which are 400 class MPSVs, were projected to be delivered in the second and third quarters of 2019, respectively. Due to the uncertainty of the timing and location of future construction activities, these vessels are now projected to be delivered in the second and third quarters of 2020, respectively. However, the timing of these remaining construction draws remains subject to change commensurate with any potential further delays in the delivery dates of such vessels. From the inception of this program through September 30, 2018, the Company had incurred \$1,274.1 million, or 95.4%, 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

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

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.

10. Other Accrued Liabilities

Other accrued liabilities include the following (in thousands):

	September 30,	December 31,
	2018	2017
Accrued lease expense	\$ 5,344	\$ 5,142
Deferred revenues	2,173	460
Other	5,548	2,855
Total	\$ 13,065	\$ 8,457

11. Income Taxes

The Tax Cuts and Jobs Act, or the Act, was signed into law on December 22, 2017. The primary impact of this legislation was a reduction of the U.S. federal corporate tax rate from 35% to 21% generally effective January 1, 2018. As of December 31, 2017, the Company included in its income tax benefit rate a preliminary estimate related to executive compensation, alternative minimum tax refundable credits, taxation in its foreign jurisdictions, and re-measurement of its deferred taxes. As of September 30, 2018, the Company has not identified or recorded any revisions to its provisional amounts and has not completed its accounting for the tax effects of enactment of the Act; however, in certain cases, as described below, the Company made reasonable estimates of the effects and recorded provisional amounts. The Company's provisional estimates on Global Intangible Low Taxed Income, Foreign Derived Intangible Income, Base Erosion and Anti-Abuse, and the IRC Section 163(j) interest limitation did not materially impact its effective tax benefit rate for the three months ended September 30, 2018. The Company will continue to refine its calculations as additional tax guidance becomes available and its internal analysis is completed. The accounting for the tax effects of the Act will be completed in 2018 as allowed under Staff Accounting Bulletin 118, which was issued by the Securities and Exchange Commission on December 22, 2017.

The effective tax benefit rate for the nine months ended September 30, 2018 and 2017 was 18.9% and 31.6%, respectively. The lower benefit rate for the period ended September 30, 2018 was primarily due to the reduction of the statutory corporate income tax rate from 35% to 21% resulting from the Act. In addition, the Company established valuation allowances in 2017 for foreign tax credit carryforwards based upon management's conclusion that it is more likely than not such losses and credits will not be realized by their expiration dates.

Table of Contents

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

12. Condensed Consolidating Financial Statements of Guarantors

The following tables present the condensed consolidating balance sheets as of September 30, 2018 and December 31, 2017, the condensed consolidating statements of operations, the condensed consolidating statements of comprehensive income (loss) and condensed consolidating statements of cash flows for the nine months ended September 30, 2018 and 2017, respectively, for the domestic subsidiaries of the Company that serve as co-borrower and/or guarantors of the Company's 2019 convertible senior notes, 2020 senior notes, 2021 senior notes and the Credit Facility, as well as the financial results for the Company's subsidiaries that do not serve as guarantors. The co-borrower and/or guarantor subsidiaries of the 2019 convertible senior notes, 2020 senior notes, 2021 senior notes and the Credit Facility are 100% owned, directly or indirectly, by Hornbeck Offshore Services, Inc. The guarantees are full and unconditional and joint and several. The non-guarantor subsidiaries of such notes include all of the Company's foreign subsidiaries.

12

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Balance Sheet
(In thousands, except per share data)

	As of September 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$3	\$ 103,966	\$ 4,097	\$—	\$ 108,066
Accounts receivable, net of allowance for doubtful accounts of \$1,162	—	40,522	9,739	(128	) 50,133
Other current assets	47	13,039	947	—	14,033
Total current assets	50	157,527	14,783	(128	) 172,232
Property, plant and equipment, net	—	2,264,250	192,012	—	2,456,262
Deferred charges, net	—	18,354	1,546	—	19,900
Intercompany receivable	1,784,031	790,433	221,368	(2,795,832) —
Investment in subsidiaries	706,811	8,602	—	(715,413) —
Other assets	—	5,821	524	—	6,345
Total assets	\$2,490,892	\$ 3,244,987	\$ 430,233	\$(3,511,373)	\$ 2,654,739
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	\$5	\$ 21,263	\$ 1,277	\$—	\$ 22,545
Accrued interest	15,606	—	—	—	15,606
Accrued payroll and benefits	—	14,345	547	—	14,892
Current portion of long-term debt, net of original issue discount of \$3,726 and deferred financing costs of \$835	95,087	—	—	—	95,087
Other accrued liabilities	—	11,933	1,260	(128	) 13,065
Total current liabilities	110,698	47,541	3,084	(128	) 161,195
Long-term debt, including deferred gain of \$16,655, and net of original issue discount of \$1,058 and deferred financing costs of \$6,773	989,088	—	—	—	989,088
Deferred tax liabilities, net	—	169,926	895	—	170,821
Intercompany payables	55,674	2,273,678	475,082	(2,804,434) —
Other liabilities	—	3,685	51	—	3,736
Total liabilities	1,155,460	2,494,830	479,112	(2,804,562)	1,324,840
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; 37,595 shares issued and outstanding	376	—	—	—	376
Additional paid-in capital	761,385	37,978	8,602	(46,580	) 761,385
Retained earnings	573,671	712,179	(51,949	) (660,231	) 573,670

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

Accumulated other comprehensive loss	—	—	(5,532	) —	(5,532)
Total stockholders' equity	1,335,432	750,157	(48,879	) (706,811	) 1,329,899	
Total liabilities and stockholders' equity	\$2,490,892	\$3,244,987	\$ 430,233	\$(3,511,373)	\$2,654,739	

13

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Balance Sheet
(In thousands, except per share data)

	As of December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$4	\$ 178,746	\$ 8,099	\$—	\$ 186,849
Accounts receivable, net of allowance for doubtful accounts of \$6,054	—	40,407	4,295	—	44,702
Other current assets	29	16,051	810	—	16,890
Total current assets	33	235,204	13,204	—	248,441
Property, plant and equipment, net	—	2,379,097	121,916	—	2,501,013
Deferred charges, net	—	11,408	1,404	—	12,812
Intercompany receivable	1,778,711	648,920	39,445	(2,467,076)	—
Investment in subsidiaries	790,734	8,602	—	(799,336)	—
Other assets	—	5,984	628	—	6,612
Total assets	\$2,569,478	\$ 3,289,215	\$ 176,597	\$(3,266,412)	\$ 2,768,878
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	\$—	\$ 15,643	\$ 553	\$—	\$ 16,196
Accrued interest	14,734	—	—	—	14,734
Accrued payroll and benefits	—	8,458	1,017	—	9,475
Other accrued liabilities	—	8,129	328	—	8,457
Total current liabilities	14,734	32,230	1,898	—	48,862
Long-term debt, including deferred gain of \$18,911, and net of original issue discount of \$7,862 and deferred financing costs of \$10,134	1,080,826	—	—	—	1,080,826
Deferred tax liabilities, net	—	192,793	4,672	—	197,465
Intercompany payables	140,019	2,240,832	190,177	(2,571,028)	—
Other liabilities	—	3,802	(1)	—	3,801
Total liabilities	1,235,579	2,469,657	196,746	(2,571,028)	1,330,954
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; 37,144 shares issued and outstanding	371	—	—	—	371
Additional paid-in capital	758,690	37,975	8,602	(44,989)	760,278
Retained earnings	574,838	781,583	(37,428)	(650,395)	668,598
Accumulated other comprehensive income	—	—	8,677	—	8,677
Total stockholders' equity	1,333,899	819,558	(20,149)	(695,384)	1,437,924
Total liabilities and stockholders' equity	\$2,569,478	\$ 3,289,215	\$ 176,597	\$(3,266,412)	\$ 2,768,878

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Statement of Operations
(In thousands)

	Three Months Ended September 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	\$—	\$ 54,488	\$ 3,489	\$ 491	\$ 58,468
Costs and expenses:					
Operating expenses	—	31,796	5,940	467	38,203
Depreciation	—	22,793	2,050	—	24,843
Amortization	—	2,340	385	—	2,725
General and administrative expenses	40	14,422	648	24	15,134
	40	71,351	9,023	491	80,905
Gain on sale of assets	—	18	7	—	25
Operating loss	(40)	(16,845)	(5,527)	—	(22,412)
Other income (expense):					
Interest income	—	477	54	—	531
Interest expense	(16,548)	—	—	—	(16,548)
Equity in earnings (losses) of consolidated subsidiaries	(14,598)	—	—	14,598	—
Other income (expense), net	—	1,331	(1,308)	—	23
	(31,146)	1,808	(1,254)	14,598	(15,994)
Income (loss) before income taxes	(31,186)	(15,037)	(6,781)	14,598	(38,406)
Income tax expense (benefit)	—	(7,474)	251	—	(7,223)
Net income (loss)	\$(31,186)	\$ (7,563)	\$ (7,032)	\$ 14,598	\$ (31,183)

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

	Three Months Ended September 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	\$(31,186)	\$ (7,563)	\$ (7,032)	\$ 14,598	\$ (31,183)
Other comprehensive income:					
Foreign currency translation loss	—	—	(2,994)	—	(2,994)
Total comprehensive income (loss)	\$(31,186)	\$ (7,563)	\$ (10,026)	\$ 14,598	\$ (34,177)

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Statement of Operations
(In thousands)

	Nine Months Ended September 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	\$—	\$ 152,766	\$ 5,286	\$ 434	\$ 158,486
Costs and expenses:					
Operating expenses	—	97,990	10,627	413	109,030
Depreciation	—	68,973	5,148	—	74,121
Amortization	—	6,078	895	—	6,973
General and administrative expenses	178	38,247	1,809	21	40,255
	178	211,288	18,479	434	230,379
Gain on sale of assets	—	48	7	—	55
Operating loss	(178)	(58,474)	(13,186)	—	(71,838)
Other income (expense):					
Interest income	—	1,502	191	—	1,693
Interest expense	(46,894)	—	—	—	(46,894)
Equity in earnings (losses) of consolidated subsidiaries	(47,857)	—	—	47,857	—
Other income (expense), net	—	1,310	(1,351)	—	(41)
	(94,751)	2,812	(1,160)	47,857	(45,242)
Income (loss) before income taxes	(94,929)	(55,662)	(14,346)	47,857	(117,080)
Income tax expense (benefit)	—	(22,328)	176	—	(22,152)
Net income (loss)	\$(94,929)	\$(33,334)	\$(14,522)	\$ 47,857	\$(94,928)

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

	Nine Months Ended September 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	\$(94,929)	\$(33,334)	\$(14,522)	\$ 47,857	\$(94,928)
Other comprehensive income:					
Foreign currency translation loss	—	—	(14,209)	—	(14,209)
Total comprehensive income (loss)	\$(94,929)	\$(33,334)	\$(28,731)	\$ 47,857	\$(109,137)

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Statement of Operations
(In thousands)

	Three Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	\$—	\$ 53,564	\$ 102	\$ —	\$ 53,666
Costs and expenses:					
Operating expenses	—	27,427	2,655	—	30,082
Depreciation	—	23,355	1,327	—	24,682
Amortization	—	2,245	228	—	2,473
General and administrative expenses	—	12,259	640	—	12,899
	—	65,286	4,850	—	70,136
Gain (loss) on sale of assets	—	(198)	1	—	(197)
Operating loss	—	(11,920)	(4,747)	—	(16,667)
Other income (expense):					
Interest income	—	351	96	—	447
Interest expense	(11,956)	—	—	—	(11,956)
Equity in earnings (losses) of consolidated subsidiaries	(6,994)	—	—	6,994	—
Other income (expense), net	—	(222)	328	—	106
	(18,950)	129	424	6,994	(11,403)
Income (loss) before income taxes	(18,950)	(11,791)	(4,323)	6,994	(28,070)
Income tax expense (benefit)	—	(9,393)	273	—	(9,120)
Net income (loss)	\$(18,950)	\$ (2,398)	\$ (4,596)	\$ 6,994	\$ (18,950)

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

	Three Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	\$(18,950)	\$ (2,398)	\$ (4,596)	\$ 6,994	\$ (18,950)
Other comprehensive income:					
Foreign currency translation gain	—	—	2,743	—	2,743
Total comprehensive income (loss)	\$(18,950)	\$ (2,398)	\$ (1,853)	\$ 6,994	\$ (16,207)

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Statement of Operations
(In thousands)

	Nine Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	\$—	\$ 123,611	\$ 11,823	\$ (263)	\$ 135,171
Costs and expenses:					
Operating expenses	—	80,293	9,359	(267)	89,385
Depreciation	—	70,077	3,961	—	74,038
Amortization	—	8,460	1,003	—	9,463
General and administrative expenses	110	34,579	1,891	(7)	36,573
	110	193,409	16,214	(274)	209,459
Gain (loss) on sale of assets	—	(180)	2	—	(178)
Operating income (loss)	(110)	(69,978)	(4,389)	11	(74,466)
Other income (expense):					
Gain on early extinguishment of debt	15,478	—	—	—	15,478
Interest income	—	1,039	273	—	1,312
Interest expense	(39,194)	—	—	—	(39,194)
Equity in earnings (losses) of consolidated subsidiaries	(42,511)	—	—	42,511	—
Other income(expense), net	—	3,424	(3,576)	(11)	(163)
	(66,227)	4,463	(3,303)	42,500	(22,567)
Income (loss) before income taxes	(66,337)	(65,515)	(7,692)	42,511	(97,033)
Income tax expense (benefit)	—	(31,488)	792	—	(30,696)
Net income (loss)	\$(66,337)	\$(34,027)	\$(8,484)	\$ 42,511	\$(66,337)

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

	Nine Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	\$(66,337)	\$(34,027)	\$(8,484)	\$ 42,511	\$(66,337)
Other comprehensive income:					
Foreign currency translation gain (loss)	—	(149)	1,685	—	1,536
Total comprehensive income (loss)	\$(66,337)	\$(34,176)	\$(6,799)	\$ 42,511	\$(64,801)

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Statement of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2018			
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net cash provided by (used in) operating activities	\$275	\$ (24,070)	\$ (1,981)	\$ —\$ (25,776)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Costs incurred for acquisition of offshore supply vessels	—	(40,868)	—	— (40,868)
Costs incurred for OSV newbuild program	—	(3,670)	—	— (3,670)
Net proceeds from sale of assets	—	75	7	— 82
Vessel capital expenditures	—	(6,135)	(1,160)	— (7,295)
Non-vessel capital expenditures	—	(112)	5	— (107)
Net cash used in investing activities	—	(50,710)	(1,148)	— (51,858)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Shares withheld for payment of employee withholding taxes	(536)	—	—	— (536)
Net cash proceeds from other shares issued	260	—	—	— 260
Net cash used in financing activities	(276)	—	—	— (276)
Effects of exchange rate changes on cash	—	—	(873)	— (873)
Net decrease in cash and cash equivalents	(1)	(74,780)	(4,002)	— (78,783)
Cash and cash equivalents at beginning of period	4	178,746	8,099	— 186,849
Cash and cash equivalents at end of period	\$3	\$ 103,966	\$ 4,097	\$ —\$ 108,066
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:				
Cash paid for interest	\$44,936	\$—	\$—	\$ —\$ 44,936
Cash paid for income taxes	\$—	\$ 586	\$ 347	\$ —\$ 933

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTSCondensed Consolidating Statement of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2017			
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net cash provided by (used in) operating activities	\$59,674	\$(93,378)	\$ 4,501	\$ —(29,203)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Costs incurred for OSV newbuild program	—	(12,755)	392	— (12,363)
Net proceeds from sale of assets	—	33	1	— 34
Vessel capital expenditures	—	(998)	(301)	— (1,299)
Non-vessel capital expenditures	—	(1,451)	(17)	— (1,468)
Net cash provided by (used in) investing activities	—	(15,171)	75	— (15,096)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from Credit Facility	980	—	—	— 980
Repurchase of senior notes due 2020	(5,057)	—	—	— (5,057)
Repurchase of convertible notes	(49,631)	—	—	— (49,631)
Deferred financing costs	(5,636)	—	—	— (5,636)
Shares withheld for payment of employee withholding taxes	(575)	—	—	— (575)
Net cash proceeds from other shares issued	258	—	—	— 258
Net cash used in financing activities	(59,661)	—	—	— (59,661)
Effects of exchange rate changes on cash	—	(150)	(81)	— (231)
Net increase (decrease) in cash and cash equivalents	13	(108,699)	4,495	— (104,191)
Cash and cash equivalents at beginning of period	9	212,196	4,822	— 217,027
Cash and cash equivalents at end of period	\$22	\$ 103,497	\$ 9,317	\$ —\$ 112,836
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:				
Cash paid for interest	\$40,028	\$—	\$ —	\$ —\$ 40,028
Cash paid for income taxes	\$—	\$463	\$ 581	\$ —\$ 1,044
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:				
Exchange of convertible notes for first-lien term loan	\$127,096	\$—	\$ —	\$ —\$ 127,096

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 audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2017. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements. See “Forward Looking Statements” for additional discussion regarding risks associated with forward-looking statements. In this Quarterly Report on Form 10-Q, “company,” “we,” “us,” “our” or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. Please refer to Item 5—Other Information for a glossary of terms used throughout this Quarterly Report on Form 10-Q.

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

General

While WTI and Brent oil prices have stabilized in the \$60 to \$70 per barrel range, they still remain below the average prices between 2005 and late 2014. The sustained decrease in oil prices caused major, international and independent oil companies with deepwater operations to significantly reduce their offshore capital spending budgets for the worldwide exploration or production of oil since 2015. Less spending by our customers combined with a global oversupply of OSVs for current market conditions, including high-spec OSVs in our core markets, have resulted in significant reductions in our dayrates and utilization.

The principal question facing the offshore oilfield-related industry is the duration of the current downturn in offshore activities. Our current view is that market conditions will remain weak through the end of fiscal 2018. However, given sustained prices in the \$60 to \$70 per barrel range and lower exploration and development costs achieved by our customers, we believe that the necessary elements for improved conditions in our market may be taking shape. While impossible to predict with assurance, this market improvement may begin to take-hold by mid-2019. However, a loss of confidence in the oil price recovery or an inability by our customers to sustain cost improvements could derail or postpone a recovery. Additionally, global economic uncertainty could have a negative impact on global economic growth or on oil markets.

While we have taken extensive measures to reduce costs, these reductions alone will not be sufficient to mitigate the full impact of revenues lost over an extended period of time. Even in light of our currently depressed operating levels, we believe cash generated from operations together with cash on hand and availability under the Credit Facility should be sufficient to fund our operations and commitments through at least March 31, 2020. However, absent the combination of a significant recovery of market conditions such that cash flow from operations were to increase materially from projected levels coupled with a refinancing and/or further management of our funded debt obligations, we do not currently expect to have sufficient liquidity to repay the full amount of our remaining tranches of 2020 senior notes and 2021 senior notes when they mature in fiscal years 2020 and 2021, respectively. The Credit Facility was the first step in addressing the maturities of our unsecured notes. We remain fully cognizant of the challenges currently facing the offshore oil and gas industry and continue to review our capital structure and assess our strategic options.

In the GoM, three high-spec OSVs have been delivered into the domestic market so far this year. We expect an additional five high-spec OSVs to be delivered into domestic service through 2019. We do not

Table of Contents

anticipate significant growth in the supply of high-spec OSVs beyond the currently anticipated level of 188 of such vessels by the end of 2019. During the third quarter of 2018, there was an average of roughly 30 floating rigs available in the GoM, while an average of 18.4 were working. The average number of floating rigs working in the GoM has remained in the low-twenties or below for nine consecutive quarters. As of October 31, 2018, there were 28 floating rigs available in the GoM, 18 of which were working. Based on recent discussions with customers and public announcements, we believe that an incremental ten to twelve floating rigs will commence charters across our operating regions of the GoM, the Caribbean, Mexico, Brazil and the northern slope of South America through mid-2019. We believe that improved regional demand drivers will further tighten supply of available, active, high-spec vessels. The GoM is one of the premier deepwater markets in the world and we are committed to supporting our customers in this market. We believe that once the current supply and demand fundamentals return to more normal conditions, our results from operations will improve. Due to a seasonal increase in demand, we experienced improved market conditions for our MPSVs in the second quarter of 2018. Some of the charters for our MPSVs concluded during the third quarter, therefore, MPSV utilization was negatively impacted. These vessels are used for a wide variety of oilfield applications that are not necessarily related to drilling.

In recognition of these weak market conditions, we stacked OSVs and MPSVs on various dates commencing on October 1, 2014. As of September 30, 2018, we had 39 OSVs and one MPSV stacked. As of November 1, 2018 we had 38 OSVs and one MPSV stacked and such stacked vessels represent 53% of our fleetwide vessel headcount, and 35% of our total OSV and MPSV deadweight tonnage. We may consider stacking additional vessels or reactivating vessels as market conditions warrant. By stacking vessels, we have significantly reduced our on-going cash outlays and lowered our risk profile; however, we also have fewer revenue-producing units in service that can contribute to our results and produce cash flows to cover our fixed costs and commitments. While we may choose to stack additional vessels should market conditions warrant, our current expectation is to retain our active fleet in the market to accept contracts at the best available terms even if such contracts are below our breakeven cash cost of operations. Mexico and Brazil continue to comprise our two core international markets. In Mexico, the opening of its offshore energy prospects to international participants yielded exploratory success, which has spurred further investment in offshore opportunities there. In order to support customer requirements in Mexico, and based on our long-term view that Mexico will continue to invest directly or allow foreign investment in its offshore energy sector, and increasingly in deepwater prospects, we elected to Mexican flag one HOSMAX 300 class OSV along with a 280 class and a 240 class OSV during the nine months ended September 30, 2018. During October 2018, we Mexican-flagged another 280 class OSV. The presidential election in Mexico may negatively impact the prospects for additional energy reform in Mexico or its attractiveness as a potential market to international companies. However, we believe that current investments will proceed. In Brazil, we are seeing modest increases in offshore activity driven, in part, by Brazil's further opening of its "pre-salt" prospects to international oil companies, many of which have shown significant interest in such prospects.

Table of Contents

Our Vessels

All of our current vessels are qualified under the Jones Act to engage in U.S. coastwise trade, except for 12 foreign-flagged new generation OSVs and two foreign-flagged MPSVs. As of September 30, 2018, our 27 active new generation OSVs, seven active MPSVs and four managed OSVs were operating in domestic and international areas as noted in the following table:

Operating Areas

Domestic

GoM	21
Other U.S. coastlines (1)	9
	30

Foreign

Other Latin America	1
Trinidad	3
Brazil	1
Mexico	3
	8
Total Vessels (2)	38

(1) Includes five owned vessels and four managed vessels supporting the military.

(2) Excluded from this table are 39 new generation OSVs and one MPSV that were stacked as of September 30, 2018.

Critical Accounting Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based on available information. We base our estimates and judgments on historical experience and various other factors that we believe are reasonable based upon the information available. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies and estimates are discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Results of Operations

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

Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Offshore Supply Vessels:				
Average number of new generation OSVs (1)	66.0	62.0	64.0	62.0
Average number of active new generation OSVs (2)	26.3	19.0	22.4	19.6
Average new generation OSV fleet capacity (DWT)	238,783	220,172	229,260	220,172
Average new generation OSV capacity (DWT)	3,618	3,551	3,584	3,551
Average new generation OSV utilization rate (3)	26.1	% 26.3	% 24.7	% 22.8
Effective new generation OSV utilization rate (4)	65.4	% 85.8	% 70.5	% 71.9
Average new generation OSV dayrate (5)	\$19,446	\$18,483	\$19,097	\$20,709
Effective dayrate (6)	\$5,075	\$4,861	\$4,717	\$4,722

(1) We owned 66 new generation OSVs as of September 30, 2018. Excluded from this data are eight MPSVs owned and operated by the Company as well as four non-owned vessels managed for the U.S. Navy.

In response to weak market conditions, we elected to stack certain new generation OSVs on various dates since (2) October 1, 2014. Active new generation OSVs represent vessels that are immediately available for service during each respective period.

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

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

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

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

Non-GAAP Financial Measures

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Securities and Exchange Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation and amortization. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as 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 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 reconciliations, we believe EBITDA 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 as a supplemental internal measure for planning and forecasting overall expectations and for evaluating actual results against such expectations; to compare to the EBITDA of other companies when evaluating potential acquisitions; and to assess our ability to service existing fixed charges and incur additional indebtedness.

Table of Contents

The following table provides the detailed components of EBITDA as we define that term for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Components of EBITDA:				
Net loss	\$(31,183)	\$(18,950)	\$(94,928)	\$(66,337)
Interest, net				
Debt obligations	16,548	11,956	46,894	39,194
Interest income	(531)	(447)	(1,693)	(1,312)
Total interest, net	16,017	11,509	45,201	37,882
Income tax benefit	(7,223)	(9,120)	(22,152)	(30,696)
Depreciation	24,843	24,682	74,121	74,038
Amortization	2,725	2,473	6,973	9,463
EBITDA	\$5,179	\$10,594	\$9,215	\$24,350

The following table reconciles EBITDA to cash flows provided by operating activities for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
EBITDA Reconciliation to GAAP:				
EBITDA	\$5,179	\$10,594	\$9,215	\$24,350
Cash paid for deferred drydocking charges	(3,882)	(995)	(7,233)	(6,950)
Cash paid for interest	(10,724)	(13,829)	(40,028)	(40,028)
Cash paid for taxes	(283)	(334)	(933)	(1,044)
Changes in working capital	7,405	(3,336)	4,248	97
Stock-based compensation expense	4,169	2,726	8,922	5,740
Gain on early extinguishment of debt	—	—	—	(15,478)
Gain (loss) on sale of assets	(25)	197	(55)	178
Changes in other, net	39	(100)	88	3,932
Net cash flows provided by (used in) operating activities	\$1,878	\$(5,077)	\$(25,776)	\$(29,203)

In addition, we have also historically made certain adjustments, as applicable, to EBITDA for losses on early extinguishment of debt, stock-based compensation expense and interest income, to internally evaluate our performance based on the computation of ratios used in certain financial covenants of our credit agreements with various lenders, whenever applicable. We believe that such ratios can, at times, be material components of financial covenants and, when applicable, failure to comply with such covenants could result in the acceleration of indebtedness or the imposition of restrictions on our financial flexibility.

The following table provides certain detailed adjustments to EBITDA, as defined in our Credit Facility, for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gain on early extinguishment of debt	\$ —	\$ —	\$ —	\$15,478
Stock-based compensation expense	4,169	2,726	8,922	5,740

Interest income	531	447	1,693	12
-----------------	-----	-----	-------	----

25

Table of Contents

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

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

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

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

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

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

Table of Contents

Summarized financial information for the three months ended September 30, 2018 and 2017, respectively, is shown below in the following table (in thousands, except percentage changes):

	Three Months Ended		Increase (Decrease)		
	September 30,		\$	%	
	2018	2017				Change	Change
Revenues:					
Vessel revenues					
Domestic	\$36,238	\$29,788	\$6,450	21.7	%
Foreign	13,163	15,849	(2,686)	(16.9))%
	49,401	45,637	3,764	8.2	%
Non-vessel revenues	9,067	8,029	1,038	12.9	%
	58,468	53,666	4,802	8.9	%
Operating expenses	38,203	30,082	8,121	27.0	%
Depreciation and amortization	27,568	27,155	413	1.5	%
General and administrative expenses	15,134	12,899	2,235	17.3	%
	80,905	70,136	10,769	15.4	%
Gain (loss) on sale of assets	25	(197)	222	>(100.0)	%
Operating loss	(22,412)	(16,667)	(5,745)	34.5	%
Interest expense	16,548	11,956	4,592	38.4	%
Interest income	531	447	84	18.8	%
Income tax benefit	(7,223)	(9,120)	1,897	(20.8))%
Net loss	\$(31,183)	\$(18,950)	\$(12,233)	64.6	%

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Revenues. Revenues for the three months ended September 30, 2018 increased by \$4.8 million, or 8.9%, to \$58.5 million compared to the same period in 2017. Our weighted-average active operating fleet for the three months ended September 30, 2018 and 2017 was 33.3 and 27.0 vessels, respectively.

Vessel revenues increased \$3.8 million, or 8.2%, to \$49.4 million for the three months ended September 30, 2018 compared to \$45.6 million for the same period in 2017. The increase in vessel revenues was primarily due to revenue associated with the four vessels that were acquired in May 2018 and, to a lesser extent, increased revenues from OSVs that were operating in our fleet during the three months ended September 2018 and 2017, respectively. For the three months ended September 30, 2018, we had an average of 40.7 vessels stacked compared to 43.0 vessels stacked in the prior-year quarter. Average new generation OSV dayrates were \$19,446 for the third quarter of 2018 compared to \$18,483 for the same period in 2017. Our new generation OSV utilization was 26.1% for the third quarter of 2018 compared to 26.3% for the same period in 2017. Our new generation OSVs were stacked for an aggregate of 3,650 days during the third quarter of 2018 compared to 3,956 days for the same period in 2017. Excluding stacked vessel days, our new generation OSV effective utilization was 65.4% and 85.8% for the same periods, respectively.

Domestic vessel revenues increased \$6.5 million from the year-ago quarter primarily due to an increase in the number of vessels operating in domestic waters during the three months ended September 30, 2018. Foreign vessel revenues decreased \$2.7 million due to lower revenue earned by our MPSVs operating in foreign markets during the three months ended September 30, 2018. Foreign vessel revenues for the third quarter of 2018 comprised 26.6% of our total vessel revenues compared to 34.7% for the year-ago period.

Non-vessel revenues increased \$1.0 million, or 12.9%, to \$9.1 million for the three months ended September 30, 2018 compared to \$8.0 million for the same period in 2017. This increase is primarily attributable to higher revenues earned from vessel management services during 2018 compared to the year-ago period.

Table of Contents

Operating Expenses. Operating expenses were \$38.2 million, an increase of \$8.1 million, or 27.0%, for the three months ended September 30, 2018 compared to \$30.1 million for the same period in 2017. Operating expenses increased primarily due to a higher number of active vessels in our fleet during the three months ended September 30, 2018. Aggregate cash operating expenses are projected to be in the approximate annual range of \$147.0 million to \$152.0 million for the year ending December 31, 2018. Such cash operating expense estimate is exclusive of any additional repositioning expenses we may incur in connection with the potential relocation of more of our vessels into international markets or back to the GoM and any customer-required cost-of-sales related to future contract fixtures that are typically recovered through higher dayrates.

Depreciation and Amortization. Depreciation and amortization expense of \$27.6 million was \$0.4 million, or 1.5%, higher for the three months ended September 30, 2018 compared to the same period in 2017. Depreciation was in-line with the prior-year period. The increase in amortization expense of \$0.3 million was due to the amortization of an intangible asset that was included in the acquisition of four OSVs in the second quarter of 2018. Depreciation expense is expected to increase from current levels when the two remaining vessels under our current newbuild program are placed in service. Amortization expense is expected to decrease as the result of the deferral of regulatory recertification activities for vessels that have been stacked. We expect amortization expense to increase temporarily whenever market conditions warrant reactivation of currently stacked vessels, which will then require us to drydock such vessels, and thereafter to revert back to historical levels.

General and Administrative Expense. G&A expense of \$15.1 million was \$2.2 million higher during the three months ended September 30, 2018 compared to the same period in 2017. The increase was due to higher long-term incentive compensation and short-term incentive compensation expense. Long-term incentive compensation was higher primarily due to a "mark to market" adjustment on cash-settled stock-based awards to reflect the increase in our stock price during the three months ended September 30, 2018.

Operating Loss. Operating loss increased by \$5.7 million to \$22.4 million during the three months ended September 30, 2018 compared to the same period in 2017 for the reasons discussed above. Operating loss as a percentage of revenues was 38.3% for the three months ended September 30, 2018 compared to 31.1% for the same period in 2017.

Interest Expense. Interest expense of \$16.5 million increased \$4.6 million during the three months ended September 30, 2018 compared to the same period in 2017 due to lower capitalized interest. During the third quarter of 2018, we did not capitalize any construction period interest compared to \$2.7 million, or roughly 18.4% of our total interest costs, for the year-ago period.

Interest Income. Interest income was \$0.5 million during the three months ended September 30, 2018, which was in-line with the same period in 2017. Our average cash balance decreased to \$115.9 million for the three months ended September 30, 2018 compared to \$122.5 million for the same period in 2017. The average interest rate earned on our invested cash balances was 1.8% and 1.5% during the three months ended September 30, 2018 and 2017, respectively. The decrease in average cash balance was primarily due to cash outflows associated with the acquisition of four OSVs from Aries Marine and related entities during the second quarter of 2018. These outflows were partially offset by draws under our \$300 million first-lien credit facility, or Credit Facility.

Income Tax Benefit. Our effective tax benefit rate was 18.8% and 32.5% for the three months ended September 30, 2018 and 2017, respectively. Our income tax benefit for the third quarter of 2018 was less than the benefit rate from the third quarter of 2017 due to the rate reduction contained in tax legislation that was enacted in December 2017. The primary impact of this legislation was the reduction of federal corporate income tax rates from 35% to 21%, effective as of January 1, 2018. Additionally, the benefit rates for the current year period and prior year period include the impact of a valuation allowance for certain deferred tax assets that are not expected to be realized by their expiration dates. Our income tax benefit primarily consisted of deferred taxes. Our income tax rate differs from the federal statutory rate primarily due to expected state tax liabilities and items not deductible for federal income tax purposes.

Table of Contents

Net Loss. Net loss increased by \$12.2 million for a reported net loss of \$31.2 million for the three months ended September 30, 2018 compared to a net loss of \$19.0 million for the same period during 2017. This increased net loss was primarily driven by higher interest expense and a lower tax benefit rate in the three months ended September 30, 2018.

Table of Contents

Summarized financial information for the nine months ended September 30, 2018 and 2017, respectively, is shown below in the following table (in thousands, except percentage changes):

	Nine Months Ended		Increase (Decrease)		
	September 30,		\$	%	
	2018	2017	Change	Change	
Revenues:					
Vessel revenues					
Domestic	\$ 104,998	\$ 84,355	\$ 20,643	24.5	%
Foreign	27,018	26,470	548	2.1	%
	132,016	110,825	21,191	19.1	%
Non-vessel revenues	26,470	24,346	2,124	8.7	%
	158,486	135,171	23,315	17.2	%
Operating expenses	109,030	89,385	19,645	22.0	%
Depreciation and amortization	81,094	83,501	(2,407)	(2.9)	%
General and administrative expenses	40,255	36,573	3,682	10.1	%
	230,379	209,459	20,920	10.0	%
Gain (loss) on sale of assets	55	(178)	233	(130.9)	%
Operating loss	(71,838)	(74,466)	2,628	(3.5)	%
Gain on early extinguishment of debt	—	15,478	(15,478)	100.0	%
Interest expense	46,894	39,194	7,700	19.6	%
Interest income	1,693	1,312	381	29.0	%
Income tax benefit	(22,152)	(30,696)	8,544	(27.8)	%
Net loss	\$(94,928)	\$(66,337)	\$(28,591)	43.1	%

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Revenues. Revenues for the nine months ended September 30, 2018 increased by \$23.3 million, or 17.2%, to \$158.5 million compared to the same period in 2017. Our weighted-average active operating fleet for the nine months ended September 30, 2018 and 2017 was 29.8 and 26.6 vessels, respectively.

Vessel revenues increased \$21.2 million, or 19.1%, to \$132.0 million for the nine months ended September 30, 2018 compared to \$110.8 million for the same period in 2017. The increase in vessel revenues primarily resulted from improved market conditions for our MPSVs and the addition of four OSVs to our operating fleet during the second quarter of 2018. Revenues from our MPSV fleet increased \$18.5 million, or 59.3%, for the nine months ended September 30, 2018 compared to the prior-year period. The prior-year period was favorably impacted by a redelivery fee related to the completion of a long-term contract for one of our OSVs that was recognized during the first nine months of 2017. Excluding such redelivery fee, vessel revenues for the nine months ended September 30, 2018 would have increased by \$30.5 million, or 27.5% compared to the same period in 2017. For the nine months ended September 30, 2018, we had an average of 42.2 vessels stacked compared to an average of 43.4 vessels stacked in the prior-year period. Average new generation OSV dayrates were \$19,097 for the first nine months of 2018 compared to \$20,709 for the same period in 2017, a decrease of \$1,612, or 7.8%. Excluding the redelivery fee, average new generation OSV dayrates would have been \$18,276 for the first nine months of 2017. Our new generation OSV utilization was 24.7% for the first nine months of 2018 compared to 22.8% for the same period in 2017. Our new generation OSVs incurred 249 days of aggregate downtime for regulatory drydockings and were stacked for an aggregate of 11,355 days during the first nine months of 2018. Excluding stacked vessel days, our new generation OSV effective utilization was 70.5% and 71.9% during the nine months ended September 30, 2018 and 2017, respectively. Domestic vessel revenues increased \$20.6 million from the year-ago period primarily due to higher dayrates earned by our MPSVs during the nine months ended September 30, 2018. Foreign vessel

Table of Contents

revenues increased \$0.5 million. Foreign vessel revenues for the first nine months of 2018 comprised 20.5% of our total vessel revenues compared to 23.9% for the year-ago period.

Non-vessel revenues increased \$2.1 million, or 8.7%, from the prior-year period. This increase is primarily attributable to higher revenues earned from vessel management services during the nine months ended September 30, 2018 compared to the year-ago period.

Operating Expenses. Operating expenses were \$109.0 million, an increase of \$19.6 million, or 22.0%, for the nine months ended September 30, 2018 compared to \$89.4 million for the same period in 2017. Operating expenses were higher due to increased activity from our MPSVs and OSVs along with vessels added to our active fleet since September 30, 2017.

Depreciation and Amortization. Depreciation and amortization expense of \$81.1 million was \$2.4 million, or 2.9%, lower for the nine months ended September 30, 2018 compared to the same period in 2017. Depreciation was in-line with the prior-year period. Amortization expense decreased \$2.5 million due to postponed recertifications for certain of our stacked OSVs. Amortization expense is expected to decrease further in the near term as a result of the deferral of regulatory recertification activities for vessels that have been stacked. We expect amortization expense to increase temporarily whenever market conditions warrant reactivation of currently stacked vessels, which will then require us to drydock such vessels, and thereafter to revert back to historical levels.

General and Administrative Expense. G&A expense of \$40.3 million was \$3.7 million higher during the nine months ended September 30, 2018 compared to the same period in 2017. The increase in G&A expense was primarily attributable to higher long-term incentive compensation expense, professional fees and short-term incentive compensation expense. Long-term incentive compensation was higher primarily due to a "mark to market" adjustment on cash-settled stock-based awards to reflect the increase in our stock price during the nine months ended September 30, 2018. These unfavorable variances were partially offset by lower bad debt reserves due to the unfavorable ruling in a bankruptcy proceeding related to a receivable from a former customer that was fully reserved during the first nine months of 2017.

Operating Loss. Operating loss decreased by \$2.6 million to an operating loss of \$71.8 million during the nine months ended September 30, 2018 compared to the same period in 2017 for the reasons discussed above. Operating loss as a percentage of revenues was 45.3% for the nine months ended September 30, 2018 compared to 55.1% for the same period in 2017.

Gain on Early Extinguishment of Debt. On June 15, 2017, we terminated our then-existing revolving credit facility and replaced it with the Credit Facility. We concurrently arranged for the repurchase of \$73.3 million of the 2019 convertible senior notes and \$8.1 million of the 2020 senior notes, for an aggregate total of \$54.1 million of cash. We recorded a gain on early extinguishment of debt of approximately \$15.5 million (\$10.5 million or \$0.29 per diluted share after-tax), which was comprised of a \$27.2 million gain on the repurchase of the 2019 convertible notes and the 2020 senior notes, offset in part by the write-off of \$2.3 million in deal costs and unamortized financing costs related to the credit facilities and \$9.4 million of original issue discount, deal costs and unamortized financing costs related to the notes repurchased.

Interest Expense. Interest expense of \$46.9 million was \$7.7 million higher than the same period in 2017. During the nine months ended September 30, 2018, we recorded \$2.3 million of capitalized construction period interest, or roughly 4.7% of our total interest costs, compared to having capitalized \$7.6 million, or roughly 16.2% of our total interest costs, for the year-ago period.

Interest Income. Interest income was \$1.7 million during the nine months ended September 30, 2018, which was \$0.4 million higher than the same period in 2017. Our average cash balance decreased to \$153.7 million for the nine months ended September 30, 2018 compared to \$186.8 million for the same period in 2017. The average interest rate earned on our invested cash balances was 1.5% and 0.9% during the nine months ended September 30, 2018 and 2017, respectively. The decrease in average cash balance was primarily due to cash outflows associated with the repurchase of a portion of our 2019 convertible senior notes and 2020 senior notes during the second quarter of 2017 and the acquisition of four vessels during the second quarter of 2018. These outflows were partially offset by draws under our Credit Facility.

Table of Contents

Income Tax Benefit. Our effective tax benefit rate was 18.9% and 31.6% for the nine months ended September 30, 2018 and 2017, respectively. Our income tax benefit for the nine months ended September 30, 2018 was less than the benefit rate from the nine months ended September 30, 2017 due to the rate reduction contained in tax legislation that was enacted in December 2017. The primary impact of this legislation was the reduction of federal corporate income tax rates from 35% to 21% effective as of January 1, 2018. Additionally, the benefit rates for the current year period and prior year period include the impact of a valuation allowance for certain deferred tax assets that are not expected to be realized by their expiration dates. Our income tax benefit primarily consisted of deferred taxes. Our income tax rate differs from the federal statutory rate primarily due to expected state tax liabilities and items not deductible for federal income tax purposes.

Net Loss. Net loss increased by \$28.6 million for a reported net loss of \$94.9 million for the nine months ended September 30, 2018 compared to a net loss of \$66.3 million for the same period during 2017. Excluding the gain on early extinguishment of debt, net loss would have been \$76.8 million for the nine months ended September 30, 2017. This increased net loss, excluding the gain on early extinguishment of debt, was primarily driven by higher interest expense and a lower tax benefit rate in the nine months ended September 30, 2018.

Liquidity and Capital Resources

We have a partially drawn \$300 million Credit Facility that matures in June 2023 and is guaranteed by our significant domestic subsidiaries other than Hornbeck Offshore Services, LLC, which is the Co-Borrower. The Credit Facility contains customary representations and warranties, covenants and events of default, but only one maintenance covenant, which is a \$25 million minimum liquidity requirement. See Note 7 for further discussion of this facility. Our capital requirements have historically been financed with cash flows from operations, proceeds from issuances of our debt and common equity securities, borrowings under our credit facilities and cash received from the sale of assets. We require capital to fund on-going operations, remaining obligations under our expanded fifth OSV newbuild program, vessel recertifications, discretionary capital expenditures and debt service and may require capital to fund potential future vessel construction, retrofit or conversion projects, acquisitions, stock repurchases or the retirement of debt. The nature of our capital requirements and the types of our financing sources are not expected to change significantly for the balance of 2018.

We regularly review all of our debt agreements, including the Credit Facility, as well as our liquidity position and projected future cash needs. Despite volatility in commodity markets, we remain confident in the long-term viability of our business model upon improvement in market conditions. Since the fall of 2014, our liquidity has been impacted by low oil and natural gas prices, which together with oil and natural gas being produced in greater volumes onshore, has impacted the extent of offshore exploration and development activities, resulting in lower than normal cash flow from operations. However, we project that, even with the current depressed operating levels, cash generated from operations together with cash on-hand and remaining undrawn availability under the Credit Facility should be sufficient to fund our operations and commitments through at least March 31, 2020. We also believe that we will be able to fund all of the deferred maintenance capital expenditures that will be required upon reactivation of our stacked vessels when market conditions improve with existing sources of liquidity. We have three tranches of funded unsecured debt outstanding that mature in fiscal years 2019, 2020 and 2021, respectively. However, absent the combination of a significant recovery of market conditions such that cash flow from operations were to increase materially from projected levels coupled with a refinancing and/or further management of our funded debt obligations, we do not currently expect to have sufficient liquidity to repay the full amount of the 2020 senior notes and the 2021 senior notes as they mature in fiscal years 2020 and 2021, respectively. The Credit Facility was the first step in addressing the maturities of our unsecured notes. Refinancing in the current climate is not likely to be achievable on terms that are in-line with our historic cost of debt capital. We remain fully cognizant of the challenges currently facing the offshore oil and gas industry and are proactively taking steps to protect the business enterprise.

Table of Contents

As of September 30, 2018, we had total liquidity (cash and credit availability) of \$244.8 million, comprised of \$108.1 million of cash and \$136.7 million of availability under the Credit Facility. As of November 9, 2018, we are in compliance with all applicable covenants under our Credit Facility.

We may, subject to market conditions and our other strategic options, from time to time amend, extinguish or repurchase part or all of our outstanding debt securities or exchange them for other debt or equity securities or loans. While we have an authorized share repurchase program, we currently intend, subject to market conditions, to prioritize our cash usage appropriate to the current market cycle, our longer term commitments and our strategic objectives. Events beyond our control, such as sustained low prices for oil and natural gas, a further significant decline in such commodity prices, renewed regulatory-driven delays in the issuance of drilling plans and permits in the GoM, declines in expenditures for offshore exploration, development and production activity, any extended reduction in domestic consumption of refined petroleum products and other reasons discussed under the "Forward Looking Statements" on page ii and "Item 1A—Risk Factors" of our Annual Report on Form 10-K, may affect our financial condition, results of operations or cash flows in the future. Should the need for additional financing arise, we may not be able to access the capital markets on attractive terms at that time or otherwise obtain sufficient capital to meet our maturing debt obligations or finance growth opportunities that may arise. We will continue to closely monitor our liquidity position, as well as the state of the global capital and credit markets. See further discussion in the Contractual Obligations section below.

Cash Flows

Operating Activities. Historically, we have relied primarily on cash flows from operations to provide working capital for current and future operations. Cash flows used in operating activities were \$25.8 million for the nine months ended September 30, 2018 compared to cash flows used in operating activities of \$29.2 million for the same period in 2017. Operating cash flows for the first nine months of 2018 continue to be unfavorably affected by weak market conditions for our vessels operating worldwide.

Investing Activities. Net cash used in investing activities was \$51.9 million for the nine months ended September 30, 2018 compared to \$15.1 million for the same period in 2017. Cash used during the first nine months of 2018 consisted primarily of the purchase of four high-spec Jones Act-qualified OSVs and related equipment from Aries Marine Corporation. Cash used during the first nine months of 2017 consisted primarily of construction costs paid for our fifth OSV newbuild program.

Financing Activities. Net cash used in financing activities was \$0.3 million for the nine months ended September 30, 2018 compared to \$59.7 million net cash used in financing activities for the same period in 2017. Net cash used in financing activities for the nine months ended September 30, 2018 resulted from shares withheld for payment of taxes due to compensatory restricted stock unit vestings. Net cash used in financing activities for the nine months ended September 30, 2017 resulted from the repurchase of a portion of the 2019 convertible senior notes and the 2020 senior notes and related financing costs.

Table of Contents

Contractual Obligations

Debt

As of September 30, 2018, the Company had the following outstanding debt (in thousands, except effective interest rate):

	Total Debt	Effective Cash Interest Rate	Cash Interest Payment	Payment Dates
5.875% senior notes due 2020, net of deferred financing costs of \$1,387 (1)	\$365,555	6.08 %	\$ 10,779	April 1 and October 1
5.000% senior notes due 2021, net of deferred financing costs of \$2,415 (1)	447,585	5.21 %	11,250	March 1 and September 1
1.500% convertible senior notes due 2019, net of original issue discount of \$3,726 and deferred financing costs of \$835	95,087	6.23 %	747	March 1 and September 1
Credit Facility due 2023, plus deferred gain of \$16,655, net of original issue discount of \$1,058 and deferred financing costs of \$3,971 (2)	175,948	8.75 %	1,310	Variable
	\$1,084,175			

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

(2) The interest rate on the Credit Facility is variable based on the Company's election. The amount reflected in this table is the monthly amount payable based on the 30-day LIBOR interest rate that was elected and in effect on September 30, 2018. Please see Note 7 for further discussion of the variable interest rate included within the Credit Facility.

The credit agreement governing the Credit Facility and the indentures governing our 2020 and 2021 senior notes impose certain operating and financial restrictions on us. Such restrictions affect, and in many cases limit or prohibit, among other things, our ability to incur additional indebtedness, make capital expenditures, redeem equity, create liens, sell assets and pay dividends or make other restricted payments. For the nine months ended September 30, 2018, we were in compliance with all applicable financial covenants. We continuously review our debt covenants and report to our Credit Facility lenders our compliance with all applicable covenants on a quarterly basis. We also consider such covenants in evaluating transactions that will have an effect on our financial ratios.

Growth Capital Expenditures and Related Commitments

During the first quarter of 2018, the Company notified the shipyard that was constructing the remaining two vessels in the Company's fifth OSV newbuild program that it was terminating the construction contracts for such vessels. The Company intends to work with the performance bond surety to find a shipyard that can finish construction and deliver such vessels. On October 2, 2018, the shipyard filed suit against the Company in the 22nd Judicial District Court for the Parish of St. Tammany in the State of Louisiana. The Company intends to vigorously defend the shipyard's claims, considers them to be without merit, and will respond to the lawsuit in due course.

The cost of this nearly completed 24-vessel newbuild program, before construction period interest, is expected to be approximately \$1,335.0 million, of which \$2.0 million and \$58.9 million are currently expected to be incurred in the remainder of 2018 and fiscal 2019, respectively. As of the date of termination, these two remaining vessels, both of which are 400 class MPSVs, were projected to be delivered in the second and third quarters of 2019, respectively. Due to the uncertainty of the timing and location of future construction activities, these vessels are now projected to be delivered in the second and third quarters of 2020, respectively. However, the timing of these remaining construction draws remains subject to change commensurate with any potential further delays in the delivery dates of such vessels. From the inception of this program through September 30, 2018, the Company had incurred \$1,274.1 million, or 95.4%, of total expected project costs. During the nine months ended September 30, 2018 the Company incurred \$1.4

million in project cost.

On May 18, 2018, the Company completed the acquisition of four high-spec Jones Act-qualified OSVs from Aries Marine Corporation and certain of its affiliates for \$40.9 million in cash, inclusive of \$4.3 million of related vessel equipment, a non-compete intangible asset, the cost of fuel and lube inventory and transactions

34

Table of Contents

fees. The acquired vessels are all U.S.-flagged and are comprised of two 300 class OSVs and two 280 class OSVs.

Maintenance and Other Capital Expenditures

The following table summarizes the costs incurred, prior to the allocation of construction period interest, for the purposes set forth below for the three and nine months ended September 30, 2018 and 2017, respectively, and a forecast for the fiscal year ending December 31, 2018 (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017		Year Ended December 31, 2018 Forecast
	Actual	Actual	Actual	Actual	Forecast
Maintenance and Other Capital Expenditures:					
Maintenance Capital Expenditures					
Deferred drydocking charges (1)	\$ 3.9	\$ 1.0	\$ 7.3	\$ 7.0	\$ 17.2
Other vessel capital improvements (2)	1.7	0.6	5.8	0.9	7.6
	5.6	1.6	13.1	7.9	24.8
Other Capital Expenditures					
Commercial-related capital expenditures (3)	0.1	0.2	5.5	0.4	5.8
Non-vessel related capital expenditures (4)	—	0.9	0.1	1.4	0.1
	0.1	1.1	5.6	1.8	5.9
Total	\$ 5.7	\$ 2.7	\$ 18.7	\$ 9.7	\$ 30.7

(1) Deferred drydocking charges for 2018 include the projected recertification costs for 13 OSVs and three MPSVs.

(2) Other vessel capital improvements include costs for discretionary vessel enhancements, which are typically incurred during a planned drydocking event to meet customer specifications.

(3) Commercial-related capital expenditures, including vessel improvements such as the addition of cranes, ROVs, helidecks, living quarters and other specialized vessel equipment, or the modification of vessel capacities or capabilities, such as DP upgrades and mid-body extensions, which costs are typically included in and offset, in whole or in part, by higher dayrates charged to customers; and commercial-related intangibles.

(4) Non-vessel related capital expenditures are primarily related to information technology and shoreside support initiatives.

Table of Contents

Forward Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as contemplated by the Private Securities Litigation Reform Act of 1995, in which the Company discusses factors it believes may affect its performance in the future. Forward-looking statements are all statements other than historical facts, such as statements regarding assumptions, expectations, beliefs and projections about future events or conditions. You can generally identify forward-looking statements by the appearance in such a statement of words like “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “remain,” “should,” “will,” comparable words or the negative of such words. The accuracy of the Company’s assumptions, expectations, beliefs and projections depends on events or conditions that change over time and are thus susceptible to change based on actual experience, new developments and known and unknown risks. The Company gives no assurance that the forward-looking statements will prove to be correct and does not undertake any duty to update them. The Company’s actual future results might differ from the forward-looking statements made in this Quarterly Report on Form 10-Q for a variety of reasons, including impacts from changes in oil and natural gas prices in the U.S. and worldwide; continued weakness in demand and/or pricing for the Company’s services through and beyond the maturity of any of the Company’s long-term debt; unplanned customer suspensions, cancellations, rate reductions or non-renewals of vessel charters, or vessel management contracts, or failures to finalize commitments to charter or manage vessels; continued weak capital spending by customers on offshore exploration and development; the inability to accurately predict vessel utilization levels and dayrates; sustained weakness in the number of deepwater and ultra-deepwater drilling units operating in the GoM or other regions where the Company operates; the effect of inconsistency by the United States government in the pace of issuing drilling permits and plan approvals in the GoM or other drilling regions; the Company’s inability to successfully complete the final two vessels of its current vessel newbuild program on-budget, including any failure or refusal by the issuer of performance bonds to cover cost overruns that may result at a completion shipyard; the inability to successfully market the vessels that the Company owns, is constructing or might acquire; the government’s cancellation or non-renewal of the management, operations and maintenance contracts for non-owned vessels; an oil spill or other significant event in the United States or another offshore drilling region that could have a broad impact on deepwater and other offshore energy exploration and production activities, such as the suspension of activities or significant regulatory responses; the imposition of laws or regulations that result in reduced exploration and production activities or that increase the Company’s operating costs or operating requirements, including any that may occur due to the results of the pending mid-term U.S. congressional elections on November 6, 2018; environmental litigation that impacts customer plans or projects; disputes with customers; bureaucratic, administrative or operating barriers that delay vessels in foreign markets from going on-hire; administrative barriers to exploration and production activities in Brazil; disruption in the timing and/or extent of Mexican offshore activities or changes in law or policy due to the results of the last presidential election; age or other restrictions imposed on the Company’s vessels by customers; unanticipated difficulty in effectively competing in or operating in international markets; less than anticipated subsea infrastructure and field development demand in the GoM and other markets affecting the Company’s MPSVs; sustained vessel over capacity for existing demand levels in the markets in which the Company competes; economic and geopolitical risks; weather-related risks; upon a return to improved operating conditions, the shortage of or the inability to attract and retain qualified personnel, when needed, including vessel personnel for active vessels or vessels the Company may reactivate or acquire; any success in unionizing any of the Company’s U.S. fleet personnel; regulatory risks; the repeal or administrative weakening of the Jones Act or adverse changes in the interpretation of the Jones Act; drydocking delays and cost overruns and related risks; vessel accidents, pollution incidents, or other events resulting in lost revenue, fines, penalties or other expenses that are unrecoverable from insurance policies or other third parties; unexpected litigation and insurance expenses; other industry risks; fluctuations in foreign currency

Table of Contents

valuations compared to the U.S. dollar and risks associated with expanded foreign operations, such as non-compliance with or the unanticipated effect of tax laws, customs laws, immigration laws, or other legislation that result in higher than anticipated tax rates or other costs; the possible loss or material limitation of the Company's tax net operating loss carryforwards and other attributes due to a change in control, as defined in Section 382 of the Internal Revenue Code; or the inability of the Company to refinance or otherwise retire certain funded debt obligations that come due in 2019, 2020 and 2021; or the potential for any impairment charges that could arise in the future and that would reduce the Company's consolidated net tangible assets which, in turn, would further limit the Company's ability to grant certain liens, make certain investments, and incur certain debt under the Company's senior notes indentures and the existing Credit Facility. In addition, the Company's future results may be impacted by adverse economic conditions, such as inflation, deflation, or lack of liquidity in the capital markets, that may negatively affect it or parties with whom it does business resulting in their non-payment or inability to perform obligations owed to the Company, such as the failure of customers to fulfill their contractual obligations or the failure by individual lenders to provide funding under the Company's existing Credit Facility, if and when required. Further, the Company can give no assurance regarding when and to what extent it will effect common stock or note repurchases. Should one or more of the foregoing risks or uncertainties materialize in a way that negatively impacts the Company, or should the Company's underlying assumptions prove incorrect, the Company's actual results may vary materially from those anticipated in its forward-looking statements, and its business, financial condition and results of operations could be materially and adversely affected and, if sufficiently severe, could result in noncompliance with certain covenants of the Company's existing indebtedness. Additional factors that you should consider are set forth in detail in the "Risk Factors" section of the Company's most recent Annual Report on Form 10-K as well as other filings the Company has made and will make with the Securities and Exchange Commission which, after their filing, can be found on the Company's website, www.hornbeckoffshore.com.

Item 3—Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the market risk disclosures set forth in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4—Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

In March 2018, we terminated two vessel construction agreements with the shipyard constructing the two vessels remaining under our fifth OSV newbuild program. We terminated the contracts for several reasons, including but not limited to delay in construction and delivery. On October 2, 2018, the shipyard filed suit against the Company in the 22nd Judicial District Court for the Parish of St. Tammany in the State of Louisiana. The Company intends to vigorously defend the shipyard's claims, considers them to be without merit, and will respond to the lawsuit in due course.

Item 1A—Risk Factors

There were no changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

None.

Item 3—Defaults Upon Senior Securities

None.

Item 4—Mine Safety Disclosures

None.

Table of Contents

Item 5—Other Information

Glossary of Terms Currently Used in Our SEC Filings

"2019 convertible senior notes" or "2019 notes" means 1.500% convertible senior notes due 2019;

"2020 senior notes" or "2020 notes" means 5.875% senior notes due 2020;

"2021 senior notes" or "2021 notes" means 5.000% senior notes due 2021;

"AHTS" means anchor-handling towing supply;

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

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

"BOEM" means the Bureau of Ocean Energy Management;

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

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

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

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

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

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

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

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

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

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

"DWT" means deadweight tons;

"effective dayrate" means the average dayrate multiplied by the average utilization rate;

"EIA" means the U.S. Energy Information Administration;

Table of Contents

"EPA" means United States Environmental Protection Agency;

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

"GAAP" means United States generally accepted accounting principles;

"GoM" means the U.S. Gulf of Mexico;

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

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

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

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

"Jones Act" means the U.S. cabotage law known as the Merchant Marine Act of 1920, as amended;

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

"long-term contract" means a time charter of one year or longer in duration;

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

"MPSV" means a multi-purpose support vessel;

"MSRC" means the Marine Spill Response Corporation;

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

"OPA 90" means the Oil Pollution Act of 1990;

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

"PEMEX" means Petroleos Mexicanos;

"Petrobras" means Petroleo Brasileiro S.A.;

"public company OSV peer group" means SEACOR Marine Holdings Inc. (NYSE:SMHI), GulfMark Offshore, Inc. (NYSE:GLF), Tidewater Inc. (NYSE:TDW), Solstad Offshore (NO:SOFF), DOF ASA (NO:DOF), Siem Offshore (NO:SIOFF), Groupe Bourbon SA (GBB:FP), Havila Shipping ASA (NO:HAVI) and/or Eidesvik Offshore (NO:EIOF);

"ROV" means a remotely operated vehicle;

"USCG" means United States Coast Guard;

"ultra-deepwater" means offshore areas, generally more than 5,000' in depth; and

"ultra high-specification" or "ultra high-spec" means, when referring to new generation OSVs, vessels with cargo-carrying capacity of greater than 5,000 DWT (i.e., 300 class OSV notations or higher), and dynamic-positioning systems with a DP-2 classification or higher.

Table of Contents

Item 6—Exhibits

Exhibit Index

Exhibit
Description of Exhibit
Number

3.1 Second Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended March 31, 2005).

3.2 Fourth Restated Bylaws of the Company adopted June 30, 2004 (incorporated by reference to Exhibit 3.3 to the Company's Form 10-Q for the quarter ended June 30, 2004).

3.3 Amendment No. 1 to Fourth Restated Bylaws of the Company adopted June 21, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 27, 2012).

3.4 Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on July 2, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed July 3, 2013).

4.1 Specimen stock certificates for the Company's common stock, \$0.01 par value (for U.S. citizens and non-U.S. citizens) (incorporated by reference to Exhibit 4.4 to the Company's Form 8-A/A filed July 3, 2013, Registration No. 001-32108).

4.2 Indenture, dated March 16, 2012 among Hornbeck Offshore Services, Inc., as issuer, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (including form of 5.875% Senior Notes due 2020) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 21, 2012).

4.3 Indenture dated as of August 13, 2012 by and among Hornbeck Offshore Services, Inc., the guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (including form of 1.500% Convertible Senior Notes due 2019) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 13, 2012).

4.4 Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 13, 2012).

4.5 Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on August 13, 2012).

4.6 Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on August 13, 2012).

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

Table of Contents

Exhibit
Number Description of Exhibit

- 4.8 Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.9 Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.10 Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.11 Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.12 Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.13 Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.11 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.14 Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.15 Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.13 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 4.16 Indenture governing the 5.000% Notes, dated March 28, 2013 among Hornbeck Offshore Services, Inc., as issuer, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (including form of 5.000% Senior Notes due 2021) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on March 28, 2013).
- 4.17 Rights Agreement dated as of July 1, 2013 between Hornbeck Offshore Services, Inc. and Computershare Inc., as Rights Agent, which includes as Exhibit A the Amended and Restated Certificate of Designation of Series A Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights to Purchase Shares (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 3, 2013).
- 4.18 First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 1.5%

Convertible Senior Notes due 2019).

42

Table of Contents

Exhibit Number	Description of Exhibit
4.19	<u>First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.875% Senior Notes due 2020).</u>
4.20	<u>First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.000% Senior Notes due 2021).</u>
4.21	<u>Form of Call Option Termination Agreement dated as of June 2017 by and between Hornbeck Offshore Services, Inc. and the applicable counterparty.</u>
4.22	<u>Form of Warrant Termination Agreement dated as of June 2017 by and between Hornbeck Offshore Services, Inc. and the applicable counterparty.</u>
4.23	<u>Second Supplemental Indenture, dated May 17, 2018 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 1.5% convertible Senior Notes due 2019).</u>
4.24	<u>Second Supplemental Indenture, dated May 17, 2018 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.875% Senior Notes due 2020).</u>
4.25	<u>Second Supplemental Indenture, dated May 17, 2018 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.000% Senior Notes due 2021).</u>
10.1	<u>First Lien Term Loan Agreement dated as of June 15, 2017 by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC, as Co-Borrower, Wilmington Trust, National Association, as Administrative Agent, Wilmington Trust, National Association, as Collateral Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 16, 2017).</u>
10.2	<u>First Lien Guaranty and Collateral Agreement dated as of June 15, 2017 by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC, as Co-Borrower, Wilmington Trust, National Association, as Collateral Agent, and the obligors signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 16, 2017).</u>
10.3	<u>First Amendment to First Lien Term Loan Agreement dated as of June 15, 2017 by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC, as Co-Borrower, Wilmington Trust, National Association, as Administrative Agent, Wilmington Trust, National Association, as Collateral Agent, and the lenders party thereto with accompanying Exhibit A (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 29, 2018).</u>
10.40	<u>Form of Amended Appendix A to Employment Agreements for Named Executive Officers.</u>

*31.1 ~~Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.~~

*31.2 ~~Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.~~

*32.1 ~~Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.~~

*32.2 ~~Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.~~

Table of Contents

Exhibit Number	Description of Exhibit
*101	Interactive Data File

* Filed herewith.

Table of Contents

SIGNATURE

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

Hornbeck Offshore Services, Inc.

Date: November 9, 2018 /s/ JAMES O. HARP, JR.

James O. Harp, Jr.

Executive Vice President and Chief Financial Officer