

HORNBECK OFFSHORE SERVICES INC /LA

Form 10-Q

May 08, 2007

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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2007

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)*

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**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

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

**103 NORTHPARK BOULEVARD, SUITE 300**

**COVINGTON, LA 70433**

*(Address of Principal Executive Offices) (Zip Code)*

**(985) 727-2000**

*(Registrant's Telephone Number, Including Area Code)*

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 April 30, 2007 was 25,822,485.

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**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2007**

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

|  | March 31,<br>2007   | December 31,<br>2006 |
|--|---------------------|----------------------|
|  | (Unaudited)         |                      |
| <b>ASSETS</b>  |                     |                      |
| Current assets:  |                     |                      |
| Cash and cash equivalents  | \$ 450,401          | \$ 474,261           |
| Accounts receivable, net of allowance for doubtful accounts of \$552 and \$745, respectively | 42,213              | 46,133               |
| Other current assets   | 10,572              | 6,593                |
| <b>Total current assets</b>  | <b>503,186</b>      | <b>526,987</b>       |
| Property, plant and equipment, net   | 582,424             | 531,951              |
| Goodwill, net  | 2,628               | 2,628                |
| Deferred charges, net  | 34,958              | 31,554               |
| Other assets   | 5,296               | 5,260                |
| <b>Total assets</b>  | <b>\$ 1,128,492</b> | <b>\$ 1,098,380</b>  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                     |                      |
| Current liabilities:   |                     |                      |
| Accounts payable   | \$ 20,694           | \$ 18,472            |
| Accrued interest   | 7,941               | 2,314                |
| Accrued payroll and benefits   | 4,762               | 7,859                |
| Deferred revenue   | 1,379               | 7,693                |
| Other accrued liabilities  | 4,430               | 1,388                |
| <b>Total current liabilities</b>   | <b>39,206</b>       | <b>37,726</b>        |
| Long-term debt, net of original issue discount of \$491 and \$503, respectively              | 549,509             | 549,497              |
| Deferred tax liabilities, net  | 64,035              | 54,480               |
| Other liabilities  | 1,193               | 1,804                |
| <b>Total liabilities</b>   | <b>653,943</b>      | <b>643,507</b>       |
| Stockholders equity:   |                     |                      |
| Preferred stock: \$0.01 par value; 5,000 shares authorized, no shares issued and outstanding | 256                 | 255                  |

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|  |              |              |
|--|--------------|--------------|
| Common stock: \$0.01 par value; 100,000 shares authorized, 25,597 and 25,561 shares issued and outstanding, respectively |              |              |
| Additional paid-in capital   | 324,098      | 321,909      |
| Retained earnings  | 150,043      | 132,558      |
| Accumulated other comprehensive income   | 152          | 151          |
|  | <hr/>        | <hr/>        |
| Total stockholders' equity   | 474,549      | 454,873      |
|  | <hr/>        | <hr/>        |
| Total liabilities and stockholders' equity   | \$ 1,128,492 | \$ 1,098,380 |
|  | <hr/>        | <hr/>        |

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

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

|   | <b>Three Months Ended<br/>March 31,</b> |                  |
|---|---|------------------|
|   | <b>2007</b>                             | <b>2006</b>      |
|   | <b>(Unaudited)</b>                      |                  |
| Revenues                                    | \$ 68,091                               | \$ 61,056        |
| Costs and expenses:                         |   |                  |
| Operating expenses                          | 27,103                                  | 22,179           |
| Depreciation                                | 4,807                                   | 5,809            |
| Amortization                                | 2,380                                   | 1,680            |
| General and administrative expenses         | 7,447                                   | 6,840            |
|   | <u>41,737</u>                           | <u>36,508</u>    |
| Gain (loss) on sale of assets               | (10)                                    | 1                |
| Operating income                            | 26,344                                  | 24,549           |
| Other income (expense):                     |   |                  |
| Interest income                             | 6,008                                   | 3,112            |
| Interest expense                            | (4,905)                                 | (4,353)          |
| Other income, net                           | 5                                       | 9                |
|   | <u>1,108</u>                            | <u>(1,232)</u>   |
| Income before income taxes                  | 27,452                                  | 23,317           |
| Income tax expense                          | (9,967)                                 | (8,466)          |
| Net income                                  | <u>\$ 17,485</u>                        | <u>\$ 14,851</u> |
| Basic earnings per common share             | <u>\$ 0.68</u>                          | <u>\$ 0.55</u>   |
| Diluted earnings per common share           | <u>\$ 0.67</u>                          | <u>\$ 0.54</u>   |
| Weighted average basic shares outstanding   | <u>25,583</u>                           | <u>27,159</u>    |
| Weighted average diluted shares outstanding | <u>26,125</u>                           | <u>27,652</u>    |

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



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

(DOLLARS IN THOUSANDS)

|   | Three Months    |           |
|---|-----------------|-----------|
|   | Ended March 31, |           |
|   | 2007            | 2006      |
|   | (Unaudited)     |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                 |           |
| Net income  | \$ 17,485       | \$ 14,851 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |           |
| Depreciation  | 4,807           | 5,809     |
| Amortization  | 2,380           | 1,680     |
| Stock-based compensation expense  | 1,745           | 1,238     |
| Provision for bad debts   | (193)           | 119       |
| Deferred tax expense  | 9,592           | 8,466     |
| Amortization of financing costs   | 486             | 203       |
| (Gain) loss on sale of assets   | 10              | (1)       |
| Equity income from investment   | (35)            | (16)      |
| Changes in operating assets and liabilities:                                      |                 |           |
| Accounts receivable   | 4,079           | 1,672     |
| Other current assets  | (3,937)         | (9,789)   |
| Deferred drydocking charges   | (6,093)         | (882)     |
| Accounts payable  | 2,041           | (1,137)   |
| Accrued liabilities and other liabilities   | (6,948)         | 1,106     |
| Accrued interest  | 5,627           | 4,582     |
| Net cash provided by operating activities   | 31,046          | 27,901    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                 |           |
| Costs incurred for MPSV program   | (29,607)        | (1,669)   |
| Costs incurred for OSV newbuild program #4  | (8,120)         | (2,255)   |
| Costs incurred for TTB newbuild program #1  |                 | (4,129)   |
| Costs incurred for TTB newbuild program #2  | (14,518)        |           |
| Acquisition and retrofit of AHTS vessels  |                 | (1,830)   |
| Net proceeds from the sale of assets  |                 | 1         |
| Vessel capital expenditures   | (1,619)         | (1,130)   |
| Non-vessel capital expenditures   | (946)           | (1,337)   |
| Net cash used in investing activities   | (54,810)        | (12,349)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                 |           |
| Deferred financing costs  | (204)           | (71)      |
| Net cash proceeds from other shares issued  | 108             | 189       |
| Net cash provided by (used in) financing activities                               | (96)            | 118       |
| Effects of exchange rate changes on cash  |                 | 8         |



|  |            |            |
|--|------------|------------|
| Net increase (decrease) in cash and cash equivalents     | (23,860)   | 15,678     |
| Cash and cash equivalents at beginning of period         | 474,261    | 271,739    |
| Cash and cash equivalents at end of period               | \$ 450,401 | \$ 287,417 |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:</b> |            |            |
| Cash paid for interest                                   | \$ 47      | \$ 50      |

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

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**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The quarterly financial statements should be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the Company ) for the year ended December 31, 2006. The results of operations for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. Certain amounts reported in prior periods have been reclassified to conform to the 2007 presentation.

The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States GAAP for complete financial statements.

***Change in Accounting Estimate***

Property, plant and equipment are recorded at cost. Depreciation and amortization of equipment and leasehold improvements are computed using the straight-line method based on the estimated useful lives and salvage values of the related assets. As of January 1, 2007, the Company prospectively modified its assumptions for estimated salvage values for its marine equipment. Salvage values for marine equipment are now estimated to range between 5% and 25% of the originally recorded cost, depending on vessel type. For the three months ended March 31, 2007, this change in estimated salvage values resulted in an increase in operating income, net income and diluted earnings per share of approximately \$1.6 million, \$1.0 million and \$0.04, respectively.

Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Earnings Per Share**

Basic earnings per share of common stock was calculated by dividing net income applicable to common stock by the weighted average number of common shares outstanding, other than unvested restricted stock, during the period. Diluted earnings per share of common stock was calculated by dividing net income by the weighted average number of common shares outstanding during the period plus the effect of dilutive stock options and unvested restricted stock. Weighted average number of common shares outstanding was calculated by using the sum of the shares determined on a daily basis divided by the number of days in the period. The table below provides details regarding the Company's earnings per share (in thousands, except for per share data):

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2007               | 2006      |
| Net income  | \$ 17,485          | \$ 14,851 |
| Weighted average number of shares of common stock outstanding                     | 25,583             | 27,159    |
| Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)(3) | 542                | 493       |
| Adjusted weighted average number of shares of common stock outstanding            | 26,125             | 27,652    |
| Earnings per common share:  |                    |           |
| Basic   | \$ 0.68            | \$ 0.55   |
| Diluted   | \$ 0.67            | \$ 0.54   |

- (1) Stock options representing rights to acquire 346 and 3 shares of common stock for the three months ended March 31, 2007 and 2006, respectively, were excluded from the calculation of diluted earnings per share, because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common stock for the period.
- (2) Dilutive restricted stock is expected to fluctuate from quarter to quarter depending on the relative stock price performance ranking among the Company's peers. See Note 5 for further information regarding the Company's restricted stock awards.
- (3) As of March 31, 2007, the 1.625% convertible senior notes were not dilutive, as the average price of the Company's stock was less than the effective conversion price of such notes. See Note 4 for further information.

**3. Recent Accounting Pronouncements**

On January 1, 2007 the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, or FIN 48. As a result of the implementation of FIN 48, the Company did not record any significant changes to its liability for unrecognized income tax benefits. As of January 1, 2007 the Company had approximately \$0.4 million of unrecognized income tax benefits, of which approximately \$0.3 million would affect the effective tax rate if recognized. As

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of March 31, 2007, the Company had \$0.4 million of unrecognized tax benefits. The Company accounts for interest and penalties relating to uncertain tax positions in the current period income statement, as necessary. The 2003, 2004, 2005, and 2006 tax years remain subject to examination by various federal, state and foreign tax jurisdictions.

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**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Long-Term Debt**

***Revolving Credit Facility***

On September 27, 2006, the Company entered into a new five-year senior secured revolving credit facility. The revolving credit facility has a borrowing base of \$100.0 million and matures in September 2011. As of March 31, 2007, the Company had no balance outstanding under the revolving credit facility and had \$100.0 million of credit immediately available under such facility. As of that date, eight offshore supply vessels, or OSVs, and four ocean-going tugs and associated personalty collateralized the new facility.

***Senior Notes***

On November 23, 2004, the Company issued in a private placement \$225.0 million in aggregate principal amount of 6.125% senior unsecured notes, or new senior notes, governed by an indenture, or the 2004 indenture. The net proceeds to the Company from the private placement were approximately \$219.0 million, net of transaction costs. The effective interest rate on the new senior notes is 6.38%.

On October 4, 2005, the Company issued in a private placement an additional \$75.0 million in aggregate principal amount of 6.125% senior unsecured notes, or additional notes, governed by the 2004 indenture. The additional notes were priced at 99.25% of principal amount to yield 6.41%. The net proceeds to the Company from this private placement were approximately \$73.1 million, net of transaction costs. The senior notes and additional notes, or collectively, the senior notes, mature on December 1, 2014 and require semi-annual interest payments at a fixed rate of 6.125% per year on June 1 and December 1 of each year until maturity. No principal payments are due until maturity.

Pursuant to registered exchange offers, the senior notes and additional notes issued in November 2004 and October 2005, respectively, that were initially sold pursuant to private placements were exchanged for 6.125% senior notes with substantially the same terms, except that the issuances of the senior notes issued in the exchange offers were registered under the Securities Act of 1933, or Securities Act. All such senior notes were issued under and are entitled to the benefits of the same 2004 indenture.

***Convertible Senior Notes***

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On November 13, 2006, the Company completed a private offering of \$250.0 million of its 1.625% convertible senior unsecured notes due 2026, or the convertible notes, to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The convertible notes initially bear interest at a fixed rate of 1.625% per year, declining to 1.375% beginning on November 15, 2013, payable semi-annually on May 15 and November 15 of each year, with the first interest payment payable on May 15, 2007. The convertible notes are convertible into shares of the Company's common stock based on the applicable conversion rate only under the occurrence of certain events as defined in the indenture governing such convertible notes, or the 2006 convertible notes indenture. The initial conversion rate of 20.6260 shares of

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**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES**