HORNBECK OFFSHORE SERVICES INC /LA
Form 10-Q
November 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

o 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<br>(State or other jurisdiction of<br>incorporation or organization) | 72-1375844<br>(I.R.S. Employer<br>Identification Number) |

103 NORTHPARK BOULEVARD, SUITE 300
COVINGTON, LA 70433
(Address of Principal Executive Offices) (Zip Code)
(985) 727-2000
(Registrant’s Telephone Number, Including Area Code)

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

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Non-accelerated filer o |
| Accelerated filer o | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The total number of shares of common stock, par value $.01 per share, outstanding as of October 31, 2015 was 35,849,293.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015
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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, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $302,618 | $185,123 |
| Accounts receivable, net of allowance for doubtful accounts of $2,996 and $3,693, respectively | 86,456 | 130,969 |
| Deferred tax assets, net | 5,347 | 45,531 |
| Other current assets | 15,762 | 20,049 |
| Current assets from discontinued operations | — | 470 |
| Total current assets | 410,183 | 382,142 |
| Property, plant and equipment, net | 2,516,894 | 2,459,486 |
| Deferred charges, net | 55,318 | 68,953 |
| Other assets | 15,301 | 11,870 |
| Total assets | $2,997,696 | $2,922,451 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $37,028 | $42,404 |
| Accrued interest | 13,591 | 14,890 |
| Accrued payroll and benefits | 14,097 | 14,830 |
| Deferred revenue | 592 | 1,561 |
| Other accrued liabilities | 15,378 | 9,360 |
| Total current liabilities | 80,686 | 83,045 |
| Long-term debt, net of original issue discount of $44,141 and $51,528, respectively | 1,080,859 | 1,073,472 |
| Deferred tax liabilities, net | 389,520 | 392,492 |
| Other liabilities | 1,260 | 1,117 |
| Long-term liabilities of discontinued operations | — | 1,560 |
| Total liabilities | 1,552,325 | 1,551,686 |
| Stockholders' equity: | | |
| Preferred stock: $0.01 par value; 5,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock: $0.01 par value; 100,000 shares authorized; 35,834 and 35,557 shares issued and | | |
| outstanding, respectively | 358 | 356 |
| Additional paid-in-capital | 744,526 | 736,294 |
| Retained earnings | 704,509 | 635,017 |
| Accumulated other comprehensive loss | (4,022 ) | (902 ) |
| Total stockholders' equity | 1,445,371 | 1,370,765 |
| Total liabilities and stockholders' equity | $2,997,696 | $2,922,451 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (Unaudited) | | (Unaudited) | |
| Revenues | $116,281 | $166,890 | $387,351 | $474,574 |
| Costs and expenses: | | | | |
| Operating expenses | 54,938 | 76,425 | 173,900 | 216,411 |
| Depreciation | 20,958 | 18,201 | 61,114 | 51,998 |
| Amortization | 6,392 | 10,810 | 20,192 | 33,916 |
| General and administrative expenses | 12,188 | 11,220 | 37,143 | 40,392 |
| | 94,476 | 116,656 | 292,349 | 342,717 |
| Gain on sale of assets | 11,004 | — | 44,060 | 161 |
| Operating income | 32,809 | 50,234 | 139,062 | 132,018 |
| Other income (expense): | | | | |
| Interest income | 381 | 233 | 988 | 880 |
| Interest expense | (9,712) | (7,808) | (29,895) | (22,056) |
| Other income (expense), net | 94 | 52 | 1,016 | 15 |
| | (9,237) | (7,523) | (27,891) | (21,161) |
| Income before income taxes | 23,572 | 42,711 | 111,171 | 110,857 |
| Income tax expense | 9,148 | 16,152 | 41,679 | 41,719 |
| Income from continuing operations | 14,424 | 26,559 | 69,492 | 69,138 |
| Income (loss) from discontinued operations, net of tax | — | (204) | — | 216 |
| Net income | $14,424 | $26,355 | $69,492 | $69,354 |
| Earnings per share: | | | | |
| Basic earnings per common share from continuing operations | $0.40 | $0.73 | $1.95 | $1.91 |
| Basic loss per common share from discontinued operations | — | (0.01) | — | — |
| Basic earnings per common share | $0.40 | $0.72 | $1.95 | $1.91 |
| Diluted earnings per common share from continuing operations | $0.40 | $0.72 | $1.92 | $1.89 |
| Diluted loss per common share from discontinued operations | — | (0.01) | — | — |
| Diluted earnings per common share | $0.40 | $0.71 | $1.92 | $1.89 |
| Weighted average basic shares outstanding | 35,832 | 36,318 | 35,723 | 36,247 |
| Weighted average diluted shares outstanding | 36,383 | 36,857 | 36,256 | 36,778 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (Unaudited) | | (Unaudited) | |
| Net income | $14,424 | $26,355 | $69,492 | $69,354 |
| Other comprehensive income: | | | | |
| Foreign currency translation income (loss) | (2,866) | (181) | (3,120) | 44 |
| Total comprehensive income | $11,558 | $26,174 | $66,372 | $69,398 |

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

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

| | Nine Months Ended September 30, 2015 (Unaudited) | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Income from continuing operations | $69,492 | $69,138 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 61,114 | 51,998 |
| Amortization | 20,192 | 33,916 |
| Stock-based compensation expense | 7,957 | 8,417 |
| Provision for bad debts | (697) | (475) |
| Deferred tax expense | 41,516 | 41,018 |
| Amortization of deferred financing costs | 7,267 | 5,971 |
| Gain on sale of assets | (44,060) | (161) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 44,910 | (30,537) |
| Other current and long-term assets | 1,185 | (6,979) |
| Deferred drydocking charges | (12,034) | (39,648) |
| Accounts payable | (8,271) | (2,080) |
| Accrued liabilities and other liabilities | (2,804) | (9,635) |
| Accrued interest | (1,299) | (1,242) |
| Net cash provided by operating activities | 184,468 | 119,701 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Costs incurred for OSV newbuild program | (152,415) | (275,150) |
| Net proceeds from sale of assets | 152,000 | 103 |
| Vessel capital expenditures | (47,460) | (41,862) |
| Non-vessel capital expenditures | (15,855) | (2,814) |
| Net cash used in investing activities | (63,730) | (319,723) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Deferred financing costs | (2,089) | — |
| Net cash proceeds from other shares issued | 1,966 | 2,403 |
| Net cash provided by (used in) financing activities | (123) | 2,403 |
| CASH FLOWS FROM DISCONTINUED OPERATIONS: | | |
| Net cash provided by operating activities | — | 790 |
| Net cash provided by investing activities | — | 1,288 |
| Net cash provided by discontinued operations | — | 2,078 |
| Effects of exchange rate changes on cash | (3,120) | 44 |
| Net increase (decrease) in cash and cash equivalents | 117,495 | (195,497) |
| Cash and cash equivalents at beginning of period | 185,123 | 439,291 |
| Cash and cash equivalents at end of period | $302,618 | $243,794 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES: | | |
| Cash paid for interest | $39,151 | $39,150 |
| Cash paid for income taxes | $3,331 | $4,111 |

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

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

## 1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The 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, 2014. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The consolidated balance sheet at December 31, 2014 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

On April 7, 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update (ASU) No. 2015-03, "Interest - Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs" (Subtopic 835-30). The amendments in ASU No. 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU No. 2015-03. Therefore, the amortization of such costs will continue to be calculated using the interest method and be reported as interest expense. ASU No. 2015-03 requires retrospective application and will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in FASB Accounting Standard Codification (ASC) Topic 605, "Revenue Recognition." On July 9, 2015, the FASB voted to defer the effective date of ASU No. 2014-09 by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. ASU No. 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 requires retrospective application. The Company is evaluating the effect of this new standard on its financial statements.

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

3. Earnings Per Share

Basic earnings per common share was calculated by dividing income from continuing operations and income from discontinued operations by the weighted average number of common shares outstanding during the period. Diluted earnings per common share was calculated by dividing income from continuing operations and income from discontinued operations by the weighted average number of common shares outstanding during the year plus the effect of dilutive stock options and restricted stock unit awards. Weighted average number of common shares outstanding was calculated by using the sum of the shares determined on a daily basis divided by the number of days in the period. The table below reconciles the Company's earnings per share (in thousands, except for per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Income from continuing operations | $14,424 | $26,559 | $69,492 | $69,138 |
| Income (loss) from discontinued operations, net of tax (1) | — | (204) | — | 216 |
| Net income | $14,424 | $26,355 | $69,492 | $69,354 |
| Weighted average number of shares of common stock outstanding | 35,832 | 36,318 | 35,723 | 36,247 |
| Add: Net effect of dilutive stock options and unvested restricted stock (2)(3)(4) | 551 | 539 | 533 | 531 |
| Weighted average number of dilutive shares of common stock outstanding | 36,383 | 36,857 | 36,256 | 36,778 |
| Earnings per common share: | | | | |
| Basic earnings per common share from continuing operations | $0.40 | $0.73 | $1.95 | $1.91 |
| Basic loss per common share from discontinued operations | — | (0.01) | — | — |
| Basic earnings per common share | $0.40 | $0.72 | $1.95 | $1.91 |
| Diluted earnings per common share from continuing operations | $0.40 | $0.72 | $1.92 | $1.89 |
| Diluted loss per common share from discontinued operations | — | (0.01) | — | — |
| Diluted earnings per common share | $0.40 | $0.71 | $1.92 | $1.89 |

(1) On August 29, 2013, the Company closed the sale of its Downstream segment.

(2) For the three and nine months ended September 30, 2015, the Company had 317 and 326 anti-dilutive stock options, respectively. For the three and nine months ended September 30, 2014, the Company had no anti-dilutive stock options. Stock options are anti-dilutive when the exercise price of the options is greater than the average market price of the common stock for the period or when the results from operations are a net loss.

(3) For the three and nine months ended September 30, 2015 and 2014, the 2019 convertible senior notes were not dilutive, as the average price of the Company's stock was less than the effective conversion price of such notes. It is the Company's stated intention to redeem the principal amount of its 2019 convertible senior notes in cash and the Company has used the treasury method for determining potential dilution in the diluted earnings per share computation.

(4) Dilutive unvested restricted stock units are expected to fluctuate from quarter to quarter depending on the Company's performance compared to a predetermined set of performance criteria. See Note 6 to these financial statements for further information regarding certain of the Company's restricted stock grants.

4. Vessel Sales

On February 27, 2015, the Company closed on the sale of three 250EDF class OSVs, the HOS Arrowhead, the HOS Eagleview and the HOS Westwind, which were previously chartered to the U.S. Navy, for cash consideration of $114.0 million. The sale resulted in a pre-tax gain of approximately $33.1 million ($20.7 million after-tax or $0.57 per diluted share). The vessel purchase agreement included an option for the acquisition of a fourth vessel chartered to the U.S. Navy, the HOS Black Powder. On August 28, 2015, the Company closed on the sale of the HOS Black Powder for incremental cash consideration of $38.0 million. This sale resulted in a pre-tax gain of approximately $11.0 million ($6.7 million after-tax or $0.19 per diluted share).

5. Long-Term Debt

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| 5.875% senior notes due 2020 | $375,000 | $375,000 |
| 5.000% senior notes due 2021 | 450,000 | 450,000 |
| 1.500% convertible senior notes due 2019, net of original issue discount of $44,141 and $51,528 | 255,859 | 248,472 |
| Revolving credit facility due 2020 | — | — |
| | 1,080,859 | 1,073,472 |
| Less current maturities | — | — |
| | $1,080,859 | $1,073,472 |

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

| | Semi-Annual Cash Interest Payment | Payment Dates |
|---|---|---|
| 5.875% senior notes due 2020 | $11,000 | April 1 and October 1 |
| 5.000% senior notes due 2021 | 11,300 | March 1 and September 1 |
| 1.500% convertible senior notes due 2019 | 2,300 | March 1 and September 1 |

As of September 30, 2015, there were no amounts drawn under the Company’s $300.0 million revolving credit facility and $0.5 million posted as letters of credit. As of September 30, 2015, the Company was in compliance with all financial covenants required by its revolving credit facility and the full amount of the undrawn borrowing base under the facility was available to the Company for all permissible uses of proceeds, including working capital, if necessary.

The Company estimates the fair value of its 2020 senior notes, 2021 senior notes and 2019 convertible senior notes by primarily using quoted market prices. The fair value of the Company’s revolving credit facility, when there are outstanding balances, approximates its carrying value. The face value, carrying value and fair value of the Company’s total debt was $1,125.0 million, $1,080.9 million and $858.8 million, respectively, as of September 30, 2015. Given the observability of the inputs to these estimates, the fair values presented for long-term debt have been assigned a Level 2 of the three-level valuation hierarchy.

Capitalized Interest

During the three and nine months ended September 30, 2015, the Company capitalized approximately $6.3 million and $18.2 million, respectively, of interest costs related to the construction of vessels. During the three and nine months ended September 30, 2014, the Company capitalized approximately $8.2 million and $25.9 million, respectively, of interest costs related to the construction of vessels.

6. Incentive Compensation

Stock-Based Incentive Compensation Plan

In June 2015, the Company received stockholder approval to increase the maximum number of shares available under its long-term compensation plan by 750,000. The Company’s stock-based incentive compensation plan now 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, 2015, the Company has granted awards covering 4.0 million shares of common stock under such plan.

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During the nine months ended September 30, 2015, the Company granted cash-settled phantom restricted stock units, time-based restricted stock units, performance-based restricted stock units and fully-vested common stock as noted in the table below.

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

The shares to be received under the performance-based restricted stock units are calculated based on the Company’s performance compared to three pre-determined criteria, as defined by the restricted stock agreements governing such awards. The actual number of shares that could be received by the award recipients can range from 0% to 150% of the awards granted depending on the Company’s performance. During the nine months ended September 30, 2015, the Company granted 353,940 time-based and performance-based restricted stock units, 47,504 cash-settled phantom restricted stock units and 39,945 shares of fully-vested common stock.

Compensation expense related to 2015 restricted stock unit grants is recognized over the three-year service period. The fair value of the Company’s performance-based restricted stock units, which is the stock price on the date of grant, is applied to the total shares that are expected to fully vest and is amortized over the vesting period, which is generally three years, based on the Company’s internal performance measured against the pre-determined criteria, as applicable. The compensation expense related to time-based restricted stock units and cash-settled phantom restricted stock units are amortized over a vesting period of up to three years, as applicable, and is determined based on the market price of the Company’s stock on the date of grant applied to the total shares that are expected to fully vest. In addition, the cash-settled phantom restricted stock units are re-measured quarterly and classified as a liability, due to the settlement of these awards in cash. In addition to the restricted stock units granted in 2015, the Company granted performance-based and time-based restricted stock units in 2012, 2013 and 2014. During the nine months ended September 30, 2015, the Company issued 277,120 shares, in the aggregate, of stock due to: 1) employees exercising previously vested stock options, 2) vestings of restricted stock units, 3) employee purchases under the Company's Employee Stock Purchase Plan and 4) the issuance of fully-vested common stock.

Stock-based compensation expense charges from previously issued equity grants and the financial impact such grants have on the Company’s operating results are reflected in the table below (in thousands, except for per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Income before taxes | $3,183 | $2,101 | $7,957 | $8,417 |
| Net income | $1,948 | $1,306 | $4,973 | $5,249 |
| Earnings per common share: | | | | |
| Basic earnings per common share | $0.05 | $0.04 | $0.14 | $0.14 |
| Diluted earnings per common share | $0.05 | $0.04 | $0.14 | $0.14 |

## 7. Commitments and Contingencies

### Vessel Construction

The Company's fifth OSV newbuild program consists of vessel construction contracts with three domestic shipyards to build four 300 class OSVs, five 310 class OSVs, ten 320 class OSVs and five 310 class MPSVs. As of September 30, 2015, the Company had placed 17 vessels in service under such program. The seven remaining vessels under this 24-vessel domestic newbuild program are currently expected to be placed in service as follows: three in the remainder of 2015 and four in 2016. Based on current contracts and internal estimates, the aggregate cost of this program, excluding construction period interest, is expected to be approximately $1,265.0 million, of which $35.0 million and $60.6 million are expected to be incurred in the remainder of 2015 and 2016, respectively. From the inception of this program through September 30, 2015, the Company had incurred $1,169.4 million, or 92.4%, of total expected project costs.

The Company has experienced production deficiencies at two of the shipyards, at which three vessels are being constructed, and expects to invoke dispute resolution mechanisms against one of them, unless an acceptable resolution is reached. The Company has been informed by the other yard that it is experiencing financial difficulties. These difficulties could impact the schedule for delivery of vessels being constructed there. The Company has security from an investment-grade rated third-party that would support completion of the work should these financial problems persist.

### Contingencies

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. 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 revisions to such estimates historically have not been material, changes in estimates of the potential liability could materially impact the Company’s results of operations, financial position or cash flows.

Vessel charters with Petrobras include limitations regarding fuel consumption. Petrobras has asserted claims against the Company relating to excess fuel consumption. The Company’s exposure for these assessments is in the range of approximately $0.5 million to $3.0 million. The Company disagrees with these assessments. During the second quarter of 2015, the Brazilian court ruled in the Company's favor related to these claims. Subsequent to this ruling, Petrobras appealed this decision to a higher court. While the Company cannot currently estimate the amounts or timing of the resolution of these matters, the Company believes that the outcome will not have a material impact on its liquidity or financial position, but the ultimate resolution could have a material impact on its interim or annual results of operations.

During 2013, the Company commenced the process of assigning the in-country vessel management services for its four vessels operating in Brazil from a third-party provider to a wholly-owned subsidiary of the Company. As a result, this assignment has been interpreted by local authorities as a new importation of these vessels resulting in an importation assessment ranging from $0.5 million to $3.5 million. The Company disagrees with this interpretation and related assessment. During the third quarter of 2015, the Brazilian court ruled in the Company's favor related to these claims and this decision has been appealed to a higher court. As of September 30, 2015, these potential importation duties have not been recorded in its financial statements. While the Company cannot estimate the amounts or timing of the resolution of this matter, the Company believes that the outcome will not have a material impact on its liquidity or financial position, but the ultimate resolution could have a material impact on its interim or annual results of operations.

During 2012, an Upstream customer, ATP Oil and Gas, Inc., initiated a reorganization proceeding under Chapter 11 of the United States Bankruptcy Code. Pre-petition receivables from ATP were $4.8 million and the Company has recorded $0.9 million in reserves. While the Company believes that the net receivables are collectible, it will continue to monitor the proceedings, which may result in actual collections that may differ materially from the current estimate.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited consolidated financial statements and notes to unaudited consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2014. 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

During 2015, oil prices have remained in a trading range of $35 to $65 per barrel and an average of $50.62. The drop in oil price is due to surplus oil, driven in part by a significant rise in U.S. shale oil production as well as other previously unavailable sources of supply. In addition, economic weakness in many regions of the world, notably Europe and China, has reduced the previously expected oil consumption growth rate. As a result of lower oil prices, major and independent oil companies with deepwater operations have significantly reduced their capital spending budgets, which are the principal demand drivers for our services. Less spending by our customers combined with a global oversupply of OSVs, including high-spec OSVs in our core markets, for the current market conditions, have resulted in reductions in both our dayrates and utilization. We cannot predict when and to what extent oil prices will improve.

In the GoM, 16 high-spec OSVs have been delivered into the domestic market during 2015, including three of our own. We expect an additional eight high-spec OSVs to be delivered into domestic service during 2016. We do not anticipate significant growth in the supply of high-spec OSVs beyond the currently anticipated level of 198 of such vessels by the end of 2016. During the third quarter of 2015, there was an average of roughly 50 floating rigs available in the GoM, while an average of 37 were working. As of October 28, 2015, there were 52 rigs available and 44 were working. However, five floating rigs have contracts that will expire during the remainder of 2015 and one additional rig is scheduled to leave the region. We do not know whether the remaining rigs will receive contract renewals for operations in the GoM. We do not expect any new rigs to arrive in the GoM during the fourth quarter of 2015. We have recently observed that, following arrival in the GoM, it can take several months for a rig to commence work and, therefore, we do not know the timing of when operations of newly arrived rigs will begin. Given these market conditions, we anticipate our average dayrates and utilization levels to be adversely affected compared to our 2013 and 2014 results. However, the GoM is one of the premier deepwater markets in the world and we are committed to supporting our customers in this market. We feel that once the current supply and demand fundamentals return to normal conditions that our results from operations will improve.

In recognition of these weak market conditions, we stacked 21 OSVs on various dates from October 2014 through September 30, 2015. Post quarter-end, we have stacked an additional six new generation OSVs to-date and expect to stack three additional vessels during the remainder of the fourth quarter of 2015. These

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vessel stackings represent 44.1% of our fleetwide vessel headcount, but only 30.0% of our total OSV and MPSV deadweight tonnage. By stacking vessels, we expect to significantly reduce our cash outlays and lower our risk profile, however, we will also have fewer revenue-producing units in service that can contribute to our results and contribute cash flows to cover our fixed costs and commitments. We may choose to stack additional vessels should market conditions warrant.

In Mexico, while the energy reform continues to progress, questions remain on the timing of the incremental activity expected in the deepwater GoM given the current oil price environment. Pemex budget reductions have resulted in contract cancellations and slower than expected growth in the market for our vessels in Mexico. We have noticed that Pemex is reviewing its vessel needs and, in certain circumstances, is not exercising options for vessels that are currently operating in its chartered fleet. Nevertheless, we consider Mexico to be a long-term market for our services, especially in light of energy reforms being carried out there. Despite current oil prices, we recently observed improved bidding results from several international companies related to shallow water auctions in Mexico. We will continue to explore opportunities to place additional vessels into Mexico to support Pemex in its ongoing shallow water activity.

During the third quarter of 2015, the long-term charters for our four vessels that were operating for Petrobras in Brazil expired. Petrobras generally appears to be moving towards an "all Brazilian flag" vessel fleet, which will limit opportunities in Brazil for foreign flag vessels, except where highly specialized. We will continue to monitor this market to charter our vessels to Petrobras or other companies operating in that region.

Our Vessels

All of our current Upstream vessels are qualified under the Jones Act to engage in U.S. coastwise trade, except for eight foreign-flagged new generation OSVs and two foreign-flagged MPSVs. As of September 30, 2015, our 38 active new generation OSVs and six MPSVs were operating in domestic and international areas as noted in the following table:

| | |
|---|---|
| Operating Areas | |
| Domestic | |
| GoM | 29 |
| Other U.S. coastlines (1) | 1 |
| | 30 |
| Foreign | |
| Mexico | |