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 incorporation or organization)	(I.R.S. Employer Identification Number)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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

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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,	
	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.

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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,	
	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.

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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.

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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, 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			

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	This standard requires measurement and recognition of expected credit losses for financial assets held. ASU No. 2016-13 requires modified retrospective application. Early adoption is permitted.	January 1, 2020	The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.
ASU No. 2016-02, "Leases" (Topic 842)	This standard requires lessees to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. ASU 2016-02 requires a modified retrospective application. Early adoption is permitted.	January 1, 2019	The Company continues to evaluate the impact this new guidance will have on its consolidated financial statements. See further discussion below.
ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"	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.	January 1, 2019	The Company continues to evaluate the impact this new guidance will have on its consolidated financial statements.
ASU No. 2018-09, "Codification Improvements"	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.	January 1, 2019	The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.
ASU No. 2018-11, "Leases" (Topic 842): Targeted Improvements	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.	January 1, 2019	The Company continues to evaluate the impact this new guidance will have on its consolidated financial statements. See further discussion below.

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 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 September 30,		Nine Months Ended 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)

(1) Due to a net loss, the Company excluded from the calculation of loss per share the effect of equity awards representing the rights to acquire 529 and 602 shares of common stock for the three and nine months ended September 30, 2018 and 990 and 988 shares of common stock for the three and nine months ended September 30, 2017, respectively.

(2) 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 Company's stated intention to redeem the principal amount of its 2019 convertible senior notes in cash and the Company has used the treasury method for determining potential dilution in the diluted earnings per share computation.

(3) Dilutive unvested restricted stock units are expected to fluctuate from quarter to quarter depending on the Company’s performance compared to a predetermined set of performance criteria. See Note 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.

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 administerial permissabilities regarding vessel reflagging transactions and permitted acquisition indebtedness, among other matters.

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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.

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 September 30,		Nine Months Ended 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

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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, 2018	December 31, 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.

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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.

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

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

	As of September 30, 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

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

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

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

	As of December 31, 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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
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Condensed 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)

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

Condensed 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	$