

HORNBECK OFFSHORE SERVICES INC /LA

Form 10-Q

August 06, 2012

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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 June 30, 2012

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**  
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

The total number of shares of common stock, par value \$.01 per share, outstanding as of July 31, 2012 was 35,384,685.

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

**FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012**

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**Table of Contents****PART 1 FINANCIAL INFORMATION****Item 1 Financial Statements****HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

	June 30, 2012	December 31, 2011 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 391,590	\$ 356,849
Accounts receivable, net of allowance for doubtful accounts of \$1,683 and \$1,253, respectively	106,907	85,629
Deferred tax assets, net	20,285	3,221
Other current assets	25,075	22,866
<b>Total current assets</b>	<b>543,857</b>	<b>468,565</b>
Property, plant and equipment, net	1,676,510	1,605,785
Deferred charges, net	63,312	47,781
Other assets	13,741	14,215
<b>Total assets</b>	<b>\$ 2,297,420</b>	<b>\$ 2,136,346</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 56,823	\$ 36,708
Accrued interest	13,978	8,955
Accrued payroll and benefits	12,837	12,781
Deferred revenue	3,399	1,774
Other accrued liabilities	11,682	7,131
<b>Total current liabilities</b>	<b>98,719</b>	<b>67,349</b>
Long-term debt, net of original issue discount of \$22,619 and \$29,352, respectively	852,381	770,648
Deferred tax liabilities, net	251,466	223,678
Other liabilities	1,174	1,683
<b>Total liabilities</b>	<b>1,203,740</b>	<b>1,063,358</b>
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; 35,348 and 35,013 shares issued and outstanding, respectively	353	350
Additional paid-in-capital	652,109	649,644
Retained earnings	441,394	423,073
Accumulated other comprehensive income (loss)	(176)	(79)
<b>Total stockholders' equity</b>	<b>1,093,680</b>	<b>1,072,988</b>

Total liabilities and stockholders' equity	\$ 2,297,420	\$ 2,136,346
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The accompanying notes are an integral part of these consolidated statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Revenues	\$ 131,645	\$ 80,817	\$ 251,618	\$ 153,084
Costs and expenses:				
Operating expenses	63,456	48,414	122,665	90,036
Depreciation	15,171	15,320	30,253	30,529
Amortization	7,107	4,773	13,024	10,165
General and administrative expenses	12,081	8,497	23,207	18,361
	97,815	77,004	189,149	149,091
Gain (loss) on sale of assets	(11)		(3)	559
Operating income	33,819	3,813	62,466	4,552
Other income (expense):				
Loss on early extinguishment of debt	(855)		(6,048)	
Interest income	461	240	1,014	419
Interest expense	(14,342)	(14,998)	(28,274)	(29,914)
Other income (expense), net	224	81	329	77
	(14,512)	(14,677)	(32,979)	(29,418)
Income (loss) before income taxes	19,307	(10,864)	29,487	(24,866)
Income tax expense (benefit)	7,293	(3,839)	11,166	(8,805)
Net income (loss)	\$ 12,014	\$ (7,025)	\$ 18,321	\$ (16,061)
Basic earnings (loss) per common share	\$ 0.34	\$ (0.26)	\$ 0.52	\$ (0.60)
Diluted earnings (loss) per common share	\$ 0.33	\$ (0.26)	\$ 0.51	\$ (0.60)
Weighted average basic shares outstanding	35,308	26,875	35,222	26,799
Weighted average diluted shares outstanding	36,050	26,875	36,029	26,799

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 June 30,		Six Months Ended June 30,	
	2012 (Unaudited)	2011	2012 (Unaudited)	2011
Net income (loss)	\$ 12,014	\$ (7,025)	\$ 18,321	\$ (16,061)
Other comprehensive income, net of tax:				
Foreign currency translation gain (loss)	(477)	(13)	(97)	4
Total comprehensive income (loss)	11,537	(7,038)	18,224	(16,057)

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

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

(In thousands)

	Six Months Ended June 30,	
	2012	2011
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 18,321	\$ (16,061)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	30,253	30,529
Amortization	13,024	10,165
Stock-based compensation expense	4,435	3,926
Loss on early extinguishment of debt	6,048	
Provision for bad debts	430	1,268
Deferred tax expense (benefit)	10,723	(7,575)
Amortization of deferred financing costs	8,325	8,015
(Gain) loss on sale of assets	3	(559)
Changes in operating assets and liabilities:		
Accounts receivable	(21,128)	3,096
Other receivables and current assets	(2,241)	(3,396)
Deferred drydocking charges	(19,745)	(10,380)
Accounts payable	4,749	3,489
Accrued liabilities and other liabilities	1,627	(780)
Accrued interest	5,023	(4)
Net cash provided by operating activities	59,847	21,733
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Costs incurred for OSV newbuild program #5	(81,510)	
Net proceeds from sale of assets	1,332	2,055
Vessel capital expenditures	(9,728)	(12,194)
Non-vessel capital expenditures	(994)	(698)
Net cash used in investing activities	(90,900)	(10,837)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Tax benefit (shortfall) from share-based payments	(42)	(1,976)
Repayment of senior notes	(300,000)	
Proceeds from the issuance of senior notes	375,000	
Redemption premium on the retirement of debt	(3,692)	
Payments for public offerings of common stock	(180)	
Deferred financing costs	(7,531)	(490)
Net cash proceeds from other shares issued	2,336	1,138
Net cash provided by (used in) financing activities	65,891	(1,328)
Effects of exchange rate changes on cash	(97)	4
Net increase in cash and cash equivalents	34,741	9,572
Cash and cash equivalents at beginning of period	356,849	126,966
Cash and cash equivalents at end of period	\$ 391,590	\$ 136,538

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:**

Cash paid for interest	\$ 18,377	\$ 21,848
Cash paid for income taxes	\$ 729	\$ 499

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

**Table of Contents****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, 2011. The results of operations for the three months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Certain reclassifications have been made to prior period results to conform to current year presentation.

The consolidated balance sheet at December 31, 2011 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. Earnings (Loss) Per Share**

Basic earnings (loss) per common share was calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share was calculated by dividing net income (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. 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 (loss) per share (in thousands, except for per share data):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income (loss)	\$ 12,014	\$ (7,025)	\$ 18,321	\$ (16,061)
Weighted average number of shares of common stock outstanding	35,308	26,875	35,222	26,799
Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)(3)	742		807	
Adjusted weighted average number of shares of common stock outstanding	36,050	26,875	36,029	26,799
<b>Earnings (loss) per common share:</b>				
Basic	\$ 0.34	\$ (0.26)	\$ 0.52	\$ (0.60)
Diluted	\$ 0.33	\$ (0.26)	\$ 0.51	\$ (0.60)

- (1) For the three and six months ended June 30, 2012, the Company had no anti-dilutive stock options. Due to a net loss, the Company excluded, for the calculation of loss per share, the effect of equity awards representing the rights to acquire 1,232 and 1,196 shares of common stock for the three and six months ended June 30, 2011, respectively, because the effect was anti-dilutive. 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.

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- (2) As of June 30, 2012 and 2011, 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, which is \$62.59 per share.
- (3) Dilutive restricted stock is expected to fluctuate from quarter to quarter depending on the Company's performance compared to a predetermined set of performance criteria. See Note 4 to these financial statements for further information regarding certain of the Company's restricted stock.

**3. Long-Term Debt**

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

	June 30, 2012	December 31, 2011
6.125% senior notes due 2014, net of original issue discount of \$215	\$	\$ 299,785
8.000% senior notes due 2017, net of original issue discount of \$5,179 and \$5,571	244,821	244,429
5.875% senior notes due 2020	375,000	
1.625% convertible senior notes due 2026, net of original issue discount of \$17,440 and \$23,566 (1)	232,560	226,434
Revolving credit facility due 2016		
	852,381	770,648
Less current maturities		
	\$ 852,381	\$ 770,648

(1) The notes initially bear interest at a fixed rate of 1.625% per year, declining to 1.375% beginning on November 15, 2013. The Company's 6.125% senior notes due 2014, or 2014 senior notes, had semi-annual cash interest payments of \$9.2 million due and payable each June 1 and December 1, prior to the repurchase and redemption of such notes in March and April 2012, as discussed below. The Company's 8.000% senior notes due 2017, or 2017 senior notes, have semi-annual cash interest payments of \$10.0 million due and payable each March 1 and September 1. The Company's 1.625% convertible senior notes due 2026, or convertible senior notes, have semi-annual cash interest payments of \$2.0 million due May 15 and November 15, declining to 1.375%, or \$1.7 million semi-annually, beginning on November 15, 2013. Subject to certain conversion and redemption features of the convertible senior notes, holders of such notes may require the Company to purchase all or a portion of their notes on each of November 15, 2013, November 15, 2016 and November 15, 2021. Conversely, the Company may also redeem all or a portion of the convertible senior notes on such dates.

On March 2, 2012, the Company commenced a cash tender offer for all of the outstanding \$300.0 million aggregate principal amount of its 6.125% senior notes due 2014. Senior notes totaling approximately \$252.2 million, or approximately 84% of the notes outstanding, were validly tendered during the designated tender period and were repurchased on March 16, 2012. The remaining \$47.8 million of 2014 senior notes were redeemed at 101.021% of par on April 30, 2012. A loss on early extinguishment of debt for the 2014 senior notes of approximately \$5.2 million was recorded during first quarter of 2012 and includes the tender offer costs, an allocable portion of the write-off of unamortized financing costs and

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

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

original issue discount, and a bond redemption premium. A loss on early extinguishment of debt of \$0.9 million was recorded during the second quarter of 2012 for those costs allocable to the 2014 senior notes redeemed on April 30, 2012.

On March 2, 2012, the Company issued \$375.0 million in aggregate principal amount of 5.875% senior notes due 2020, or 2020 senior notes. The net proceeds to the Company from the offering were approximately \$367.4 million, net of estimated transaction costs. The Company used \$259.9 million of proceeds on March 16, 2012 to repurchase approximately 84% of the outstanding 2014 senior notes pursuant to its tender offer noted above. The Company used \$49.5 million of proceeds on April 30, 2012 to redeem the remaining 16% of the outstanding 2014 senior notes pursuant to the redemption noted above. The remaining proceeds are available for general corporate purposes, which may include funding for the acquisition, construction or retrofit of vessels. The 2020 senior notes mature on April 1, 2020 and require semi-annual interest payments at an annual rate of 5.875% on April 1 and October 1 of each year until maturity. The effective interest rate on the new senior notes is 6.08%. No principal payments are due until maturity. The 2020 senior notes are senior unsecured obligations and rank equally in right of payment with other existing and future senior indebtedness and senior in right of payment to any subordinated indebtedness that may be incurred by the Company in the future. The 2020 senior notes are guaranteed by certain of the Company's subsidiaries. The guarantees are full and unconditional, joint and several, and all of the Company's non-guarantor subsidiaries are minor as defined in Commission regulations. Hornbeck Offshore Services, Inc., as the parent company issuer of the 2020 senior notes, has no independent assets or operations other than its ownership interest in its subsidiaries and affiliates. There are no significant restrictions on the Company's ability or the ability of any guarantor to obtain funds from its subsidiaries by such means as a dividend or loan, except for certain restrictions contained in the Company's revolving credit facility restricting the payment of dividends by the Company's two principal subsidiaries. The Company may, at its option, redeem all or part of the 2020 senior notes from time to time at specified redemption prices and subject to certain conditions required by the indenture governing the 2020 senior notes. The Company is permitted under the terms of the indenture to incur additional indebtedness in the future, provided that certain financial conditions set forth in the indenture are satisfied by the Company.

The Company has an amended and restated revolving credit facility, with a borrowing base of \$300.0 million and an accordion feature that allows for the potential expansion of the facility up to an aggregate of \$500.0 million. The facility matures in November 2016.

Under the Company's revolving credit facility, it has the option of borrowing at a variable rate of interest equal to either (i) LIBOR, plus an applicable margin, or (ii) the greatest of the Prime Rate, the Federal Funds Effective Rate plus  $\frac{1}{2}$  of 1% and the one-month LIBOR plus 1%, plus in each case an applicable margin. The applicable margin for each base rate is determined by a pricing grid, which is based on the Company's leverage ratio, as defined in the credit agreement governing the amended revolving credit facility. Unused commitment fees are payable quarterly at the annual rate ranging from 37.5 basis points to 50.0 basis points as determined by a pricing grid.

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

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

As of June 30, 2012, there were no amounts drawn under the Company's \$300.0 million revolving credit facility and \$1.3 million posted as letters of credit. As of June 30, 2012, 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 uses of proceeds, including working capital, if necessary.

The Company estimates the fair value of its 2014 senior notes, 2017 senior notes, 2020 senior notes and 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 \$875.0 million, \$852.4 million and \$903.4 million, respectively, as of June 30, 2012. 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 six months ended June 30, 2012, the Company capitalized approximately \$2.0 million and \$3.5 million respectively, of interest costs related to the construction of vessels. No such interest was capitalized during the same periods in 2011.

**4. Incentive Compensation**

***Stock-Based Incentive Compensation Plan***

The Company's stock-based incentive compensation plan covers a maximum of 4.2 million shares of common stock that allows the Company to grant restricted stock awards, restricted stock unit awards, or collectively restricted stock, stock options and stock appreciation rights to employees and directors.

During the six months ended June 30, 2012, the Company granted cash-settled restricted stock units, time-based restricted stock and performance-based restricted stock. Time-based restricted stock was granted to executive officers and directors of the Company. Cash-settled phantom restricted stock units were granted to executive officers and certain shore-side employees of the Company.

Performance-based restricted stock was granted to executive officers of the Company. The shares to be received under the performance-based restricted stock 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 100% of the Company's awards depending on the Company's performance. During the six months ended June 30, 2012, the Company granted 200,565 time-based restricted stock and performance-based restricted stock and 137,358 cash-settled phantom restricted stock units. The cash-settled phantom

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restricted stock units are re-measured quarterly and classified as a liability, due to the settlement of these awards in cash.

Compensation expense related to 2012 restricted stock grants is recognized over the three-year service period. The fair value of the Company's performance-based restricted stock, 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 and cash-settled phantom restricted stock, is amortized over a vesting period of up to three years, as applicable, 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 to the restricted stock granted in 2012, the Company granted performance-based and time-based restricted stock in 2009, 2010 and 2011 as well as stock options in 2011. During the six months ended June 30, 2012, the Company issued 334,823 shares, in the aggregate, of stock that vested pursuant to share-based compensation grants from such prior periods or were purchased under the Company's Employee Stock Purchase Plan.

The 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income before taxes	\$ 2,185	\$ 1,725	\$ 4,435	\$ 3,926
Net income	\$ 1,359	\$ 1,116	\$ 2,754	\$ 2,536
Earnings per common share:				
Basic	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.09
Diluted	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.09

In addition, the Company capitalized approximately \$0.1 million of stock-based compensation expense that related directly to newbuild construction programs for the three and six months ended June 30, 2012. No such stock-based compensation expense was capitalized during the three and six months ended June 30, 2011.

**5. Contingencies**

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its financial position, results of operations, or cash flows.

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

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

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

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. In February 2012 and 2011, the terms of entry with the P&I Club for the Downstream segment contained an annual aggregate deductible (AAD) for which the Company remains responsible. The P&I Club is responsible for covered amounts that exceed the AAD, after payment by the Company of an additional individual claim deductible. The Company provides reserves for those portions of the AAD and any individual claim deductibles for which the Company remains responsible by using an estimation process that considers Company-specific and industry data, as well as management's experience, assumptions and consultation with outside counsel. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise its estimates. Although revisions to such estimates have historically not been material, changes in estimates of the potential liability could materially impact the Company's results of operations, financial position or cash flows.

During 2010 and 2011, the Company mobilized 12 vessels, in the aggregate, to Brazil to operate under long-term contracts for Petrobras. These vessels required a significant amount of modifications to comply with requirements of the contracts. The Company has been assessed penalties by Petrobras for late-deliveries. In addition, these 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, net of amounts accrued, is in the range of approximately \$0.5 million to \$8.0 million. The Company disagrees with a majority of these assessments. In addition, the Company also has claims against Petrobras for their contributory actions related to the vessels' late deliveries. Such claims exceed the maximum exposure noted above. The Company is not able to predict the ultimate outcome of these claims and counterclaims with Petrobras as of June 30, 2012. 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 material impact on its interim or annual results of operations.

**6. Segment Information**

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

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The following table shows reportable segment information for the three and six months ended June 30, 2012 and 2011, reconciled to consolidated totals and prepared on the same basis as the Company's consolidated financial statements (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Operating revenues:</b>				
Upstream				
Domestic	\$ 84,315	\$ 35,188	\$ 141,043	\$ 67,758
Foreign (1)	37,383	32,774	88,548	61,547
	121,698	67,962	229,591	129,305
Downstream				
Domestic	7,584	10,705	17,428	20,304
Foreign (1)(2)	2,363	2,150	4,599	3,475
	9,947	12,855	22,027	23,779
Total	\$ 131,645	\$ 80,817	\$ 251,618	\$ 153,084
<b>Operating expenses:</b>				
Upstream	\$ 56,201	\$ 39,924	\$ 108,328	\$ 74,138
Downstream	7,255	8,490	14,337	15,898
Total	\$ 63,456	\$ 48,414	\$ 122,665	\$ 90,036
<b>Depreciation:</b>				
Upstream	\$ 13,045	\$ 13,198	\$ 26,005	\$ 26,290
Downstream	2,126	2,122	4,248	4,239
Total	\$ 15,171	\$ 15,320	\$ 30,253	\$ 30,529
<b>Amortization:</b>				
Upstream	\$ 5,761	\$ 3,378	\$ 9,998	\$ 7,481
Downstream	1,346	1,395	3,026	2,684
Total	\$ 7,107	\$ 4,773	\$ 13,024	\$ 10,165
<b>General and administrative expenses:</b>				
Upstream	\$ 11,177	\$ 7,611	\$ 21,435	\$ 16,627
Downstream	904	886	1,772	1,734
Total	\$ 12,081	\$ 8,497	\$ 23,207	\$ 18,361
<b>Gain (loss) on sale of assets:</b>				
Upstream	\$ (11)	\$	\$ (3)	\$
Downstream				559

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Total	\$	(11)	\$		\$	(3)	\$	559
<b>Operating income (loss):</b>								
Upstream	\$	35,503	\$	3,851	\$	63,822	\$	4,769
Downstream		(1,684)		(38)		(1,356)		(217)
Total	\$	33,819	\$	3,813	\$	62,466	\$	4,552
<b>Capital expenditures:</b>								
Upstream	\$	45,864	\$	4,645	\$	90,400	\$	11,593
Downstream		974		89		1,004		847
Corporate		521		203		828		452
Total	\$	47,359	\$	4,937	\$	92,232	\$	12,892

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

	As of June 30, 2012	As of December 31, 2011
<b>Identifiable Assets:</b>		
Upstream	\$ 2,063,342	\$ 1,915,137
Downstream	206,843	197,876
Corporate	27,235	23,333
<b>Total</b>	<b>\$ 2,297,420</b>	<b>\$ 2,136,346</b>
<b>Long-Lived Assets:</b>		
Upstream		
Domestic	\$ 1,188,566	\$ 965,535
Foreign (1)	309,265	460,099
	1,497,831	1,425,634
Downstream		
Domestic	144,232	146,027
Foreign (1)(2)	28,579	28,344
	172,811	174,371
Corporate	5,868	5,780
<b>Total</b>	<b>\$ 1,676,510</b>	<b>\$ 1,605,785</b>

- (1) The Company's vessels conduct operations in international areas from time to time. Vessels will routinely move to and from domestic and international operating areas. As these assets are highly mobile, the long-lived assets reflected above represent the assets that were present in international areas as of June 30, 2012 and December 31, 2011, respectively.
- (2) Included are amounts applicable to the Puerto Rico downstream operations, even though Puerto Rico is considered a possession of the United States and the Jones Act applies to vessels operating in Puerto Rican waters.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited consolidated financial statements and notes to unaudited consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2011. 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 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**

#### **Our Upstream Segment**

The OSV market continues to expand globally. Offshore exploration and production activities are increasingly focused on deep wells (as defined by total well depth rather than water depth), whether on the Outer Continental Shelf or in the deepwater or ultra-deepwater. These types of wells require high-specification equipment and have resulted in an on-going newbuild cycle for drilling rigs and for high-spec OSVs. As a result of the projected deepwater drilling activity levels worldwide, there were 71 floating rigs under construction or on order on July 31, 2012 and, as of that date, there were options outstanding to build 26 additional floating rigs and 19 units announced but yet to be contracted with shipyards. In addition, on that date, there were 90 high-spec jack-up rigs under construction or on order worldwide, and there were options outstanding to build 34 additional high-spec jack-up rigs and three units announced but not yet contracted with shipyards. Each drilling rig working on deep-well projects typically requires more than one OSV to service it. The number of OSVs required per rig is dependent on many factors, including the type of activity being undertaken and the location of the rig. For example, based on the historical data for the number of floating rigs and OSVs working, we believe that two to four OSVs per rig are required in the GoM and even more OSVs may be necessary per rig in Brazil where greater logistical challenges result in longer vessel turnaround times to service drill sites. Typically, during the initial drilling stage, more OSVs are required to supply drilling mud, drill pipe and other materials than at later stages of the drilling cycle. In addition, more OSVs are generally required the farther a drilling rig is located from shore. Under normal weather conditions, the transit time to deepwater drilling rigs in the GoM and Brazil can typically range from six to 24 hours for a new generation vessel. Moreover, in Brazil, transit times for a new generation vessel to some

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of the newer, more logistically remote deepwater drilling rig locations are more appropriately measured in days, not hours. In addition to drilling rig support, deepwater and ultra-deepwater exploration and production activities will result in the expansion of other specialty-service offerings for our vessels. These markets include subsea construction support, installation, IRM work, and life-of-field services, which include well-stimulation, workovers and decommissioning.

Presently, our oilfield service operations are conducted in three primary geographic regions comprised of the GoM, Brazil and Mexico. Descriptions of these three regions are included below.

*GoM.* The GoM continues to be considered a world-class basin by exploration and production companies. The *EIA* estimates that the GoM contains 68 billion barrels of recoverable oil equivalent utilizing existing technologies. According to IHS-Petrodata, the number of floating rigs available in the GoM region is currently 40 and has increased from the pre-Macondo level of 34, because the nine floaters that either left the region or were stacked and the three floaters that have been stacked or are currently being rebuilt, have since been replaced by 18 similar or more advanced rigs. During 2011 and early 2012, a gradual improvement in the number of incremental deepwater well permits issued per month occurred, albeit through surges of activity followed by sharp declines. We anticipate that the pace of permit issuance will be uneven for some time to come. Of the 40 rigs available in the GoM, 29 were actively drilling as of July 31, 2012. For the five pre-Macondo years of 2005 through 2009, the historical average level of floating rigs actively drilling was 29 rigs with a peak of 35 rigs. We expect that floating rig growth in the GoM will continue to be driven by demand in the deepwater and ultra-deepwater, primarily in water depths greater than 3,000 feet.

Improvement in dayrates and utilization for our vessels has continued through the second quarter of 2012. Leading-edge spot market OSV dayrates in the GoM for our 240 and 265 class DP-2 equipment have been in the \$30,000 to \$36,000 range, which are roughly double the levels experienced in early 2011. Whether these rates can be sustained will depend, among other things, on the future pace of permitting in the GoM. Since February 2011, we have re-activated 13 new generation OSVs that were stacked in response to the drilling moratorium. Fleetwide effective, or utilization-adjusted, dayrates for our new generation OSVs increased about \$6,700, or roughly 50%, from \$13,915 for the second quarter of 2011 to \$20,558 for the second quarter of 2012. During the quarter ended June 30, 2012, we had an average stacked new generation OSV fleet of 3.0 vessels compared to 10.9 vessels for the same period in 2011. As of July 31, 2012, we have only two DP-1 new generation OSVs stacked. Given the continuous improvement in market conditions, our two remaining stacked 200 class new generation OSVs are expected to be re-activated for service in the GoM during the fourth quarter of 2012, provided that we are able to re-crew such vessels and complete any required drydocking activities within that timeframe. The recent recovery in the GoM may be adversely affected by an increasing shortage of and competition for qualified mariners. This shortage is being exacerbated by customer and regulatory driven requirements that increase the manning levels on many vessels, including drilling units that operate in the GoM. We expect that our labor costs, which comprise the highest portion of our operating costs, will increase due to this mariner shortage. To address intense competition for mariners, we increased our Upstream crew wages in April 2012 by roughly \$5.0 million per quarter or \$10.0 million, in the aggregate, for the last half of 2012. We expect these increased wage levels to continue into 2013 and beyond.

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*Brazil.* Brazil is experiencing a dramatic increase in activity related to its large deepwater and pre-salt oilfield basins. This increase in activity is driven primarily by the state-owned oil company, Petroleo Brasileiro S.A., or Petrobras, and other producers, including BP p.l.c., Chevron Corporation, Exxon Mobil Corporation, OGX Petroleo e Gas Participacoes and Royal Dutch Shell plc. Petrobras has publicly announced plans to spend approximately \$128 billion on exploration and production activities from 2011 through 2015 and has stated that its offshore supply vessel needs could increase from approximately 290 in 2010 to nearly 480 in 2015. Brazilian operators plan to add four new floating rigs by the end of 2013. Since the beginning of 2010, we have increased our presence in Brazil from zero to a high of 14 vessels. As of July 31, 2012, we have nine vessels working in Brazil under long-term contracts for Petrobras. However, one of the remaining nine vessels will mobilize back to the GoM after completing its contract with Petrobras, during the third quarter. We expect to bid on additional contracts in Brazil. However, high operating costs as well as regulatory complexity and bureaucratic inefficiency are impacting our ability to generate operating margins commensurate with those we have historically generated in the GoM. Moreover, Petrobras is the single largest consumer of our services in Brazil and, for 2011, the Company overall. As is typical with large state-owned national oil companies, contracts with Petrobras are onerous and contain multiple provisions that allow Petrobras to impose penalties and deduct payments for performance issues even if we disagree with the basis of those penalties or deductions. Petrobras has exercised these kinds of measures in our contract and we expect that we will continue to confront similar issues with Petrobras going forward. In addition to regulatory complexity and the inherent difficulties associated with the Petrobras contracting regime, there is an acute shortage of mariners in Brazil, which we are required by law to employ on our vessels. This shortage is a significant contributor to escalating costs in Brazil and could present a barrier to our growth in that market.

*Mexico.* The primary customer in the Mexican market is the state-owned oil company, PEMEX. The Cantarell field, which according to the *EIA* is PEMEX's largest offshore oilfield, has declined from approximately 2.14 million barrels per day to 500,000 barrels per day. In 2010, 54% of Mexico's total crude oil production came from the Cantarell field and the Ku-Maloob-Zaap field, both of which are located in the Bay of Campeche. In its July 2011 Outlook, PEMEX highlighted that 60% of its prospective resources, or 29.5 billion barrels of oil equivalent, are in the deepwater Gulf of Mexico. However, in order to develop this resource, PEMEX will likely need to tap the expertise of non-Mexican international oil companies. Under Article 27 of the Mexican constitution, private persons or companies (other than the state-owned PEMEX) are not allowed to carry out the exploration for petroleum, and solid, liquid, or gaseous hydrocarbons. As a result, while we believe that Mexico could develop into a large market for deepwater activity, we do not expect this to occur until the Mexican government has found a solution to their constitutional constraints. We anticipate the outcome of the recent Presidential election in Mexico should result in favorable changes in the offshore exploration and production of oil and natural gas in this region. Currently, there are four floating rigs and 26 jack-up rigs drilling offshore Mexico. PEMEX has announced that there are no plans to add another floating rig for the remainder of 2012, however two more high-spec jack-up rigs will be added. We began working in Mexico in 2002 and currently have seven vessels working there under long-term contracts. We will continue to actively bid additional vessels into Mexico as tenders are issued by PEMEX.

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*Market conditions.* As of July 31, 2012, we had 65% of our new generation OSV vessel-days contracted for the remainder of 2012, with 24 vessels contracted through at least the end of the year. Our forward OSV contract coverage for 2013 currently stands at 34%. Our MPSV contract coverage for the remainder of 2012 has also increased as a result of the improving market conditions in the GoM. On the strength of two long-term contracts awarded to our MPSVs during 2011 and recent spot market activity, MPSV utilization was 91% for the second quarter of 2012 and contract coverage for the remainder of 2012 and 2013 is currently 70% and 40%, respectively.

A sustained market recovery will depend upon several factors outside of our control including 1) the ability of operators and drilling contractors to comply with the new regulatory rules; 2) the pace at which regulators approve plans and permit applications required by operators to drill; 3) the content of additional as yet unpromulgated rules that are expected to be issued; 4) the outcome of pending litigation brought by environmental groups challenging recent exploration plans approved by the DOI and 5) general economic conditions.

All of our current Upstream vessels are qualified under the Jones Act to engage in U.S. coastwise trade, except for five foreign-flagged new generation OSVs, two foreign-flagged well stimulation vessels and two foreign-flagged MPSVs. As of June 30, 2012, our 48 active new generation OSVs and four MPSVs were operating in domestic and international areas as noted in the following table:

<b>Operating Areas</b>	
<i>Domestic</i>	
GoM	25
Other U.S. coastlines (1)	5
	30
<i>Foreign</i>	
Brazil (2)	11
Mexico	8
Middle East	2
Other Latin America	1
	22
<i>Total Upstream Vessels (3)</i>	52

(1) Includes vessels that are currently supporting the military.

(2) During the third and fourth quarters of 2012, three of our new generation OSVs will mobilize back to the GoM upon completion of their contracts with Petrobras.

(3) Excluded from this table are three of our new generation OSVs and one conventional OSV that were stacked as of June 30, 2012. One additional new generation OSV was activated in July 2012. We expect the two remaining new generation OSVs that are stacked to be re-activated during the fourth quarter of 2012, provided that we can re-crew such vessels and complete required regulatory drydockings within that timeframe.

**Our Downstream Segment**

As of June 30, 2012, our Downstream fleet was comprised of nine double-hulled tank barges and 15 ocean-going tugs, six of which are older, lower-horsepower tugs that are stacked. The prolonged weakness in the overall economy, which has impacted our Downstream segment since 2008, continues to adversely impact demand for Downstream equipment. Although Downstream results for the second quarter improved from the prior year,

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recent dayrate trends are well below the Downstream dayrates that existed from 2006 to 2008. Driven by demand from the Eagle Ford shale, we outfitted three additional vessels with vapor-recovery systems to allow them to work in the trans-Gulf crude oil trade. We feel as if these developments will have a positive impact on our Downstream vessels operating in the GoM during the second half of 2012. With the protracted weak demand for tugs and tank barges coupled with the expansion of our Upstream fleet, we expect our Downstream segment to continue to represent a much smaller portion of our consolidated operating results compared to historical trends.

## **Critical Accounting Estimates**

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles, or GAAP. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based on available information. We base our estimates and judgments on historical experience and various other factors that we believe are reasonable based upon the information available. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are discussed in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Table of Contents****Results of Operations**

The tables below set forth, by segment, the average dayrates, utilization rates and effective dayrates for our vessels and the average number and size of vessels owned during the periods indicated. These new generation OSVs and tank barges generate a substantial portion of our revenues and operating profit. Excluded from the OSV information below is the results of operations for our MPSVs, conventional vessels, our shore-base facility, and vessel management services. The Company does not provide average or effective dayrates for its new generation MPSVs as such amounts are skewed by highly variable customer-required costs-of-sales associated with ancillary equipment and services, such as ROVs and cranes. These costs-of-sales are typically recovered through higher dayrates charged to the customer. Nevertheless, due to the fact that each of our MPSVs have a workload capacity and significantly higher income generating potential than each of the Company's new generation OSVs, the utilization and dayrate levels of our MPSVs could have a significant impact on our results of operations. For this reason, our consolidated operating results, on a period-to-period basis, are disproportionately impacted by the level of dayrates and utilization achieved by our four MPSVs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Upstream:</b>				
<i>New Generation Offshore Supply Vessels:</i>				
Average number of new generation OSVs (1)	51.0	51.0	51.0	51.0
Average number of active new generation OSVs (2)	48.0	40.1	47.4	38.4
Average new generation OSV fleet capacity (DWT)	128,190	128,190	128,190	128,190
Average new generation vessel capacity (DWT)	2,514	2,514	2,514	2,514
Average new generation OSV utilization rate (3)	88.1%	67.9%	84.6%	63.5%
Effective new generation OSV utilization rate (4)	93.6%	86.3%	91.1%	84.4%
Average new generation OSV dayrate (5)	\$ 23,335	\$ 20,493	\$ 22,896	\$ 20,732
Effective dayrate (6)	\$ 20,558	\$ 13,915	\$ 19,370	\$ 13,165
<b>Downstream:</b>				
<i>Double-hulled tank barges:</i>				
Average number of tank barges (7)	9.0	9.0	9.0	9.0
Average fleet capacity (barrels)	884,621	884,621	884,621	884,621
Average barge capacity (barrels)	98,291	98,291	98,291	98,291
Average utilization rate (3)	74.6%	90.6%	80.0%	86.5%
Average dayrate (8)	\$ 16,284	\$ 17,333	\$ 16,811	\$ 16,880
Effective dayrate (6)	\$ 12,148	\$ 15,704	\$ 13,449	\$ 14,601

- (1) We owned 51 new generation OSVs as of June 30, 2012. Excluded from this data is one stacked conventional OSV that we consider to be a non-core asset. Also excluded from this data are four MPSVs owned and operated by the Company.
- (2) In response to weak market conditions, we elected to stack certain of our new generation OSVs on various dates in 2010 and 2011. Based on improved market conditions, we had re-activated 12 new generation OSVs as of June 30, 2012. One additional new generation OSV was activated in July 2012. We plan to re-activate our remaining two stacked OSVs during the fourth quarter of 2012, provided that we are able to re-crew such vessels and complete any required drydocking activities within that timeframe. Active new generation OSVs represent vessels that are immediately available for service during each respective period.
- (3) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
- (4) Effective utilization rate is based on a denominator comprised only of vessel-days available for service by the active fleet, which excludes the impact of stacked vessel days.
- (5) Average dayrates represent average revenue per day, which includes charter hire, crewing services and net brokerage revenues, based on the number of days during the period that the OSVs generated revenue.
- (6) Effective dayrate represents the average dayrate multiplied by the average utilization rate.
- (7) Other operating data for tugs and tank barges reflects our active Downstream fleet of nine double-hulled barges and nine ocean-going tugs. We also own six older, lower-horsepower tugs, which we consider to be non-core assets and are marketed for sale. We previously owned a fleet of single-hulled tank barges; however, all of those vessels have been sold as they were also considered non-core assets.
- (8) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost paid by customers of in-chartering third-party equipment.



**Table of Contents****Non-GAAP Financial Measures**

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Securities and Exchange Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation and amortization. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as comparative measure.

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

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

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

The following table provides the detailed components of EBITDA as we define that term for the three and six months ended June 30, 2012 and 2011, respectively (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Components of EBITDA:</b>				
Net income (loss)	\$ 12,014	\$ (7,025)	\$ 18,321	\$ (16,061)
Interest expense, net				
Debt obligations	14,342	14,998	28,274	29,914
Interest income	(461)	(240)	(1,014)	(419)
Total interest, net	13,881	14,758	27,260	29,495
Income tax expense (benefit)	7,293	(3,839)	11,166	(8,805)
Depreciation	15,171	15,320	30,253	30,529
Amortization	7,107	4,773	13,024	10,165
EBITDA	\$ 55,466	\$ 23,987	\$ 100,024	\$ 45,323

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The following table reconciles EBITDA to cash flows provided by operating activities for the three and six months ended June 30, 2012 and 2011, respectively (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>EBITDA Reconciliation to GAAP:</b>				
EBITDA	\$ 55,466	\$ 23,987	\$ 100,024	\$ 45,323
Cash paid for deferred drydocking charges	(11,586)	(5,178)	(19,745)	(10,380)
Cash paid for interest	(3,621)	(11,531)	(18,377)	(21,848)
Cash paid for taxes	(197)	(123)	(729)	(499)
Changes in working capital	(10,118)	(3,910)	(12,242)	4,502
Stock-based compensation expense	2,185	1,725	4,435	3,926
Loss on early extinguishment of debt	855		6,048	