

HORNBECK OFFSHORE SERVICES INC /LA
Form 424B5
September 30, 2005
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Filed Pursuant to Rule 424(b)(5)

Registration No. 333-128014

Prospectus Supplement to Prospectus dated September 15, 2005.

8,100,000 Shares

Hornbeck Offshore Services, Inc.

Common Stock

Hornbeck Offshore Services, Inc. is offering 6,100,000 shares of common stock to be sold in the offering. The selling stockholder identified in this prospectus supplement is offering an additional 2,000,000 shares. We will not receive any proceeds from the sale of the shares being sold by the selling stockholder.

Our common stock is listed on the New York Stock Exchange under the symbol HOS . The last reported sales price of the common stock on September 29, 2005 was \$36.10 per share.

See Risk Factors beginning on page S-12 of this prospectus supplement to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

<u>Per Share</u>	<u>Total</u>
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Initial price to public	\$ 35.350	\$ 286,335,000
Underwriting discount	\$ 1.591	\$ 12,887,100
Proceeds, before expenses, to Hornbeck Offshore	\$ 33.759	\$ 205,929,900
Proceeds, before expenses, to the selling stockholder	\$ 33.759	\$ 67,518,000

To the extent the underwriters sell more than 8,100,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,215,000 shares from Hornbeck Offshore at the initial price to public, less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on October 5, 2005.

Joint Book-Running Managers

Goldman, Sachs & Co.

Jefferies & Company, Inc.

Lehman Brothers

Bear, Stearns & Co. Inc.

Johnson Rice & Company L.L.C.

Simmons & Company International

Hibernia Southcoast Capital

Pritchard Capital Partners, LLC

Prospectus Supplement dated September 29, 2005.

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SUMMARY

This summary highlights selected information from this prospectus supplement or the accompany prospectus and does not contain all the information you need to consider in making your investment decision. This prospectus supplement and the accompanying prospectus include or incorporate by reference about this offering, our business and our financial and operating data. We encourage you to read the entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section and the financial statements and the footnotes to those statements and the information incorporated by reference in this document before making an investment decision. You should rely on the information provided or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus supplement and the accompanying prospectus is accurate as of any date other than their respective dates.

References in this prospectus supplement to the company, we, us, our, or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. References in this prospectus supplement to OSVs mean offshore supply vessels; to deepwater mean offshore areas, generally 1,000 to 5,000 in depth, and ultra-deepwater areas, generally more than 5,000 in depth; to deep well mean a well drilled to a true vertical depth of 15,000 or greater; and to new generation, when referring to OSVs, mean modern, deepwater-capable vessels subject to the regulations promulgated under the International Convention on Tonnage Measurement of Ships, 1969, which was adopted by the United States and made effective for all U.S.-flagged vessels in 1992 and foreign-flagged equivalent vessels.

Hornbeck Offshore Services, Inc.

We are a leading provider of technologically advanced, new generation OSVs serving the offshore oil and gas industry, primarily in the U.S. Gulf of Mexico, Trinidad and in select international markets. The focus of our OSV business is on complex exploration and production activities, which include deepwater, deep well and other logistically demanding projects. Such other projects include, among others, the construction, maintenance and repair of offshore infrastructure. We are also a leading transporter of petroleum products through our tug and tank barge segment serving the energy industry, primarily in the northeastern United States and Puerto Rico.

Historically, demand for our OSV services has been primarily driven by the drilling of deep wells, whether in the deepwater or on the U.S. Continental Shelf, and other complex exploration and production projects that require specialized drilling and production equipment. In addition, our new generation OSVs are increasingly in demand by our customers for conventional drilling projects because of the ability of our OSVs to reduce overall offshore logistics costs for the customer through the vessels' greater capacities and operating efficiencies.

According to the Minerals Management Service, or MMS, in 2004 the deepwater region accounted for 64% of total U.S. Gulf of Mexico oil production and 35% of total U.S. Gulf of

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Mexico natural gas production, up substantially from 4% and 1%, respectively, in 1990. In addition, the MMS estimates that deep reservoirs on the Continental Shelf may hold up to 55 tcf of undiscovered natural gas. This potential reserve base compares favorably to the current total of approximately 26 tcf of proven natural gas reserves in the entire U.S. Gulf of Mexico. As the trend toward these deeper, larger and more complex projects emerged in the mid- 1990s, we recognized that conventional 180 OSVs were not well-suited to effectively service these projects or to operate in the challenging environments in which they were conducted. Since that time, we have constructed 17 new generation OSVs based on the proprietary designs of our in-house team of naval architects and have acquired eight additional new generation OSVs.

Our fleet of 25 OSVs is among the youngest in the industry with an average age of approximately five years. We are the only publicly traded company with a significant fleet of U.S.-flagged, new generation OSVs. All of our OSVs have enhanced capabilities that allow them to more effectively support the premium drilling equipment required for deep drilling and related specialty services. In contrast to conventional 180 OSVs, our vessels have dynamic positioning capability, as well as greater range and storage and off-loading capacity. These features are essential to the efficient servicing of deep well drilling projects given the typical size, depth, complexity and location of such projects. We are capable of providing OSV services to our customers anywhere in the world. Currently, we have eight OSVs operating offshore Trinidad and our fast supply vessel operating in Mexico and we are actively pursuing additional contracts in these and other select international markets. In addition, because of the increased capabilities of our new generation OSVs, our customers have begun chartering these vessels at rates higher than those earned by conventional 180 OSVs for conventional drilling projects in the U.S. Gulf of Mexico. In May 2005, we announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370-foot multi-purpose supply vessels, or MPSVs.

Our tug and tank barge fleet consists of 14 ocean-going tugs and 15 active ocean-going tank barges. We currently have three double-hulled tank barges under construction with two previously delivered under our current newbuild program. We believe our tug and tank barge business complements our OSV business by providing additional revenue and geographic diversification, while allowing us to offer another line of services to integrated oil and gas companies. Demand for our tug and tank barge services is primarily driven by the level of refined petroleum product consumption in the northeastern United States and Puerto Rico. The Energy Information Administration, or EIA, projects that refined petroleum product consumption in the East Coast region of the United States will increase by an average of 1.7% per year from 2002 to 2010. During this time frame, we expect a significant number of the industry's single-hulled vessels operating in this market to be retired from service due to the Oil Pollution Act of 1990, or OPA 90. In order to replace vessels being retired, vessel operators are incurring significant capital costs to construct replacement double-hulled vessels to maintain their fleet capacity and we believe they will require higher dayrates in order to justify such capital outlays. We believe that this supply and demand environment may favorably impact our operating results.

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Our Competitive Strengths

Technologically Advanced Fleet of OSVs. Our new generation OSVs have significantly more capacity and operate more efficiently than conventional 180 OSVs. Our proprietary vessels, including the MPSVs to be converted, incorporate sophisticated technologies and are designed specifically to operate safely in complex and challenging environments. These technologies include dynamic positioning, roll reduction systems and controllable pitch thrusters, which allow our vessels to maintain position with minimal variance, and our unique cargo handling systems, which permit high volume transfer rates of liquid mud and dry bulk. We believe that we earn higher average dayrates and maintain higher utilization rates than our competitors due to the superior capabilities of our OSVs, our eight-year track record of safe and reliable performance and the collaborative efforts of our in-house design team in providing marine solutions to our customers.

Young OSV Fleet. We believe that we operate one of the youngest fleets of U.S.-flagged OSVs. While the average age of the industry's conventional 180 U.S.-flagged OSV fleet is approximately 25 years, the average age of our OSV fleet is approximately five years. Newer vessels generally experience less downtime and require significantly less maintenance and scheduled drydocking costs compared to older vessels. We believe that our operation of new, technologically advanced OSVs gives us a competitive advantage in obtaining long-term contracts for our vessels and in attracting and retaining crews.

Commitment to Safety and Quality. As part of our commitment to safety and quality, we have voluntarily pursued and received certifications and classifications that are not generally held by other companies in our industry. Safety is an increasingly important consideration for oil and gas operators due to the environmental and regulatory sensitivity associated with offshore drilling and production activity. We believe that customers recognize our commitment to safety and that our strong reputation and performance history provide us with a competitive advantage.

Leading Presence in Core Target Markets. Our 23 U.S.-flagged OSVs comprise the second largest fleet of technologically advanced, new generation OSVs qualified for work in the U.S. Gulf of Mexico. Currently, 17 of our 23 U.S.-flagged OSVs operate in that area. We also operate eight OSVs offshore Trinidad with a 60% market share in that market. In addition, we operate one of the largest fleets of tugs and tank barges for the transportation of petroleum products in Puerto Rico and believe that we are the fifth largest tank barge transporter of petroleum products in New York Harbor. We believe that having scale in our selected markets benefits our customers and provides us with operating efficiencies.

Successful Track Record of Vessel Construction and Acquisitions. Our management team has significant naval architecture, marine engineering and shipyard experience. We believe that our history of designing and constructing 17 new generation OSVs on time and on budget provides us with a competitive advantage in obtaining contracts for our vessels prior to their actual delivery. Our company has designed its operations and management systems in contemplation of additional growth through new vessel construction and acquisitions. To date, we have successfully completed and integrated multiple acquisitions involving 17 ocean-going tugs and 13 ocean-going tank barges, two coastwise tankers, six 220 new generation OSVs, a 165 fast supply vessel and two anchor-handling towing supply, or AHTS, vessels. We have also acquired two coastwise sulfur tankers that are being

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converted into MPSVs. In November 2003, we commenced construction of five double-hulled tank barges based on a proprietary design developed by our in-house engineering team. Two of these barges have been delivered with the other three expected to be delivered in the fourth quarter of 2005. In addition, we recently announced our fourth OSV newbuild program and our second tug and tank barge newbuild program.

Experienced Management Team with Proven Track Record. Our executive management team has an average of 22 years of domestic and international marine transportation industry-related experience. We believe that our team has successfully demonstrated its ability to grow our fleet through new construction and strategic acquisitions and to secure profitable contracts for our vessels in both favorable and unfavorable market conditions.

Our Strategy

Apply Existing and Develop New Technologies to Meet our Customers' Vessel Needs. Our new generation OSVs and MPSVs are designed to meet the higher capacity and performance needs of our clients' increasingly more complex drilling and production programs. In addition, our proprietary double-hulled tank barges currently under construction are designed to maximize transit speed, improve cargo through-put rates and enhance crew safety features. We are committed to applying existing and developing new technologies to maintain a technologically advanced fleet that will enable us to continue to provide a high level of customer service and meet the developing needs of our customers for OSVs, MPSVs and ocean-going tugs and tank barges.

Expand Fleet Through Newbuilds and Strategic Acquisitions. We plan to expand our fleet through construction of new vessels, including construction of new generation OSVs and double-hulled tank barges as market conditions warrant, retrofitting of certain vessels and through strategic acquisitions. See *Recent Developments* for a discussion of two recently announced newbuild programs. We believe that acquisition opportunities are likely to arise as consolidation continues in our two industry segments. We intend to use our expertise and experience to evaluate and execute strategic acquisitions where the opportunity exists to expand our service offerings in our core markets and create or enhance long-term client relationships.

Pursue Optimal Mix of Long-Term and Short-Term Contracts. We seek to balance our portfolio of customer contracts by entering into both long-term and short-term charters. Long-term charters, which contribute to higher utilization rates, provide us with more predictable cash flow. Most of our long-term charters contain annual dayrate escalation provisions. Short-term charters provide the opportunity to benefit from increasing dayrates in favorable market cycles. We plan our mix of long-term and spot market contracts with respect to our OSVs based on anticipated market conditions. By design, substantially all of our tank barges operate under long-term contracts.

Build Upon Existing Customer Relationships. We intend to build upon existing customer relationships by expanding the services we offer to those customers with diversified marine transportation needs. Many integrated oil and gas companies require OSVs to support their exploration and production activities and ocean-going tugs and tank barges to support their

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refining, trading and retail distribution activities. Moreover, many of our customers that conduct operations internationally have expressed interest in chartering our OSVs in such markets. For example, we are currently operating four OSVs offshore Trinidad for service to a customer with whom we have a long-standing relationship in the U.S. Gulf of Mexico.

Optimize Tug and Tank Barge Operations. Due to OPA 90 phase-out requirements of single-hulled barges, the total barrel-carrying capacity of existing tank vessels transporting petroleum products domestically is projected to decline from its current level without a commensurate increase in newbuildings and retrofittings. In addition, the energy industry is increasingly outsourcing its marine transportation requirements and focusing on safety and reliability as a key determinant in awarding new business. We believe that these trends will improve the balance of supply and demand, and result in improved tank barge utilization and dayrates.

Recent Developments

Recent Hurricane Activity. We experienced no damage to any of our vessels as a result of Hurricanes Katrina and Rita, including those vessels currently under construction or conversion at various Gulf of Mexico shipyards. In addition, the storms had no negative impact on our vessel charters. Our new generation OSV fleet continues to operate at pre-storm levels of 100% utilization, with some vessels earning higher dayrates. Further, no physical damage occurred at our corporate headquarters in Covington, Louisiana and electrical power, Internet connectivity and telecommunications service have been restored. We are now fully operational from our headquarters. While it is premature to gauge the full extent or precise nature of the impact that the storms will have on the energy industry or on our business and operations, historically, we have experienced an increase in demand for our offshore service vessels in the aftermath of storms of this nature.

Upgrade of Tug and Tank Barge Fleet. In connection with our ongoing efforts to upgrade our tug and tank barge fleet over time, we recently sold an older ocean-going tug, the *North Service*, agreed to sell one of our inactive single-hulled tank barges, the *Energy 9501*, and bought two 6,000 horsepower ocean-going tugs that we are currently retrofitting for delivery in the fourth quarter of 2005. These tugs have been renamed the *Eagle Service* and *Patriot Service*. The estimated aggregate cost to acquire and retrofit these two higher horsepower tugs is approximately \$16 million. Two of the five new tank barges in the current newbuild program have been delivered, one in March 2005 and the other in July 2005. The other three barges in this newbuild program are expected to be delivered by year-end 2005.

Newly Announced Additional OSV and Double-Hulled Tank Barge Newbuild Programs. On September 26, 2005, we announced two additional vessel newbuild programs. Our latest OSV newbuild program contemplates the construction of high end, technologically advanced OSVs totaling, in the aggregate, approximately 20,000 deadweight tons. Our new ocean-going tug and tank barge newbuild program anticipates the construction of ocean-going tank barges having, in the aggregate, an estimated 400,000 barrels of barrel-carrying capacity, and related ocean-going tugs. The precise vessel numbers and specifications of these OSVs, tank barges and tugs will be finalized as certain milestones are completed, including the negotiation of shipyard contracts.

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Senior Notes Offering. Concurrently with this offering, we are offering \$75,000,000 of our 6.125% senior notes due 2014 at 99.25% of principal amount in a private placement exempt from registration under the Securities Act of 1933, as amended, or Securities Act. We intend to use the net proceeds of this offering, in addition to the net proceeds from our note offering, to fund a portion of the costs of the construction of OSVs, ocean-going tugs and ocean-going, double-hulled tank barges, the retrofit or conversion of certain existing vessels, including MPSVs, possible future acquisitions and additional new vessel construction, and for general corporate purposes. Pending these uses, we will repay debt under our revolving credit facility, which may be reborrowed. An affiliate of one of the underwriters for this offering is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering. The offering of our notes is being conducted as a separate private placement pursuant to Rule 144A or Regulation S of the Securities Act by means of a separate offering circular. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any of such senior notes. The completion of this common stock offering is not contingent upon the completion of our note offering and the completion of the note offering is not contingent on this common stock offering.

Plans to Renegotiate Revolving Credit Facility. Upon completion of this common stock offering and our concurrent note offering, we plan to negotiate a new revolving credit facility with our current bank group, and possibly add new lenders. Our goal will be to provide for, among others things, a longer maturity, increased borrowing capacity, lower interest rates and an updated covenant package commensurate with our improved credit standing.

We were formed as a Delaware corporation in 1997. Our principal executive offices are located at 103 Northpark Boulevard, Suite 300, Covington, Louisiana 70433, and our telephone number is (985) 727-2000. Our website address is <http://www.hornbeckoffshore.com>. Information on our website does not constitute part of this prospectus supplement.

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Common stock offered by Hornbeck Offshore	6,100,000 shares
Common stock offered by the selling stockholder	2,000,000 shares
Total shares of common stock offered	8,100,000 shares
Shares of common stock outstanding after the offering	27,120,316 shares (a)
Use of proceeds	The net proceeds of the offering to us are approximately \$205.4 million. We intend to use the proceeds of this offering, in addition to the proceeds from our concurrent note offering, to fund a portion of the costs of the construction of OSVs, ocean-going tugs and ocean-going, double-hulled tank barges, the retrofit or conversion of certain existing vessels, including MPSVs, possible future acquisitions and additional new vessel construction, and for general corporate purposes. Pending these uses, we will repay debt under our revolving credit facility, which may be reborrowed. An affiliate of one of the underwriters for this offering is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder identified in this prospectus supplement.
New York Stock Exchange Symbol	HOS

- (a) The number of shares of common stock outstanding after the offering excludes up to 3,082,922 shares reserved for issuance under our employee incentive equity plans, pursuant to which options to purchase 1,129,354 shares at a weighted average exercise price of \$12.87 per share are outstanding as of September 23, 2005.

Risk Factors

See Risk Factors beginning on page S-12 for a discussion of certain factors you should consider before investing in our common stock.

Table of Contents**Hornbeck Offshore Services, Inc.****Summary Financial Information****(In thousands, except operating data)**

The following table presents summary financial information regarding our company, which should be read in conjunction with, and is qualified in its entirety by reference to, our historical consolidated financial statements, the notes to those statements, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement. The summary financial information set forth below as of and for the years ended December 31, 2002, 2003 and 2004 has been derived from our audited consolidated financial statements. The summary financial information set forth below as of and for the six months ended June 30, 2004 and 2005 has been derived from our unaudited consolidated financial statements.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Statement of Operations Data:					
Revenues	\$ 92,585	\$ 110,813	\$ 132,261	\$ 61,635	\$ 78,986
Operating expenses	36,337	46,805	58,520	28,047	31,468
Depreciation	10,351	14,393	17,408	8,556	9,211
Amortization	1,945	3,197	5,727	2,271	3,396
General and administrative expenses	9,681	10,731	14,759	6,292	8,571
Operating income	34,271	35,687	35,847	16,469	26,340
Interest expense	16,207	18,523	17,698	9,801	5,438
Net income (loss)	11,647	11,190	(2,483)	4,268	12,961
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 22,228	\$ 12,899	\$ 54,301	\$ 23,734	\$ 12,443
Property, plant and equipment, net	226,232	316,715	361,219	343,077	422,363
Total assets	278,290	365,242	460,571	404,231	487,069
Total long-term debt(1)	172,306	212,677	225,000	172,879	241,000
Total stockholders' equity	71,876	112,395	182,904	189,699	196,720
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	\$ 24,955	\$ 25,499	\$ 21,405	\$ 12,907	\$ 28,450
Investing activities	(55,771)	(98,166)	(61,378)	(35,307)	(69,393)
Financing activities	(159)	63,322	81,358	33,225	(924)
Other Financial Data (unaudited):					
EBITDA(2)	\$ 46,622	\$ 53,983	\$ 59,117	\$ 27,290	\$ 40,076
Capital expenditures	55,771	105,816	61,378	35,307	71,434
Other Operating Data (unaudited):					
<i>Offshore Supply Vessels:</i>					
Average number of vessels	11.0	17.3	22.8	22.7	24.2
Average vessel capacity (deadweight tons)	2,208	2,353	2,274	2,270	2,325
Average utilization rate(3)	94.9%	88.6%	87.5%	81.1%	95.5%
Average dayrate(4)	\$ 12,176	\$ 10,940	\$ 10,154	\$ 9,636	\$ 11,980
Effective dayrate(5)	11,555	9,693	8,885	7,815	11,441
<i>Tugs and Tank Barges:</i>					
Average number of tank barges	16.0	15.9	16.0	16.0	13.7
Average fleet capacity (barrels)	1,130,727	1,145,064	1,156,330	1,156,330	968,002
Average barge size (barrels)	70,670	72,082	72,271	72,271	69,143
Average utilization rate(3)	78.1%	73.6%	82.2%	85.5%	85.5%
Average dayrate(6)	\$ 9,499	\$ 10,971	\$ 11,620	\$ 11,181	\$ 12,924
Effective dayrate(5)	7,419	8,075	9,552	9,560	11,050

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- (1) Excludes original issue discount associated with our 10.625% senior notes in the principal amount of \$175,000, in the amount of \$2,694, \$2,323 and \$0 as of December 31, 2002, 2003 and 2004, respectively, and \$2,121 and \$0 for the six months ended June 30, 2004 and 2005, respectively. We repurchased 91% of the 10.625% senior notes in November 2004 and redeemed the remaining 9% of such senior notes in January 2005. Long-term debt as of December 31, 2003 and June 30, 2005 includes \$40,000 and \$16,000, respectively, outstanding under our revolving credit facility, which was undrawn as of December 31, 2002 and 2004 and June 30, 2004.

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- (2) See our discussion of EBITDA as a non-GAAP financial measure and related reconciliation immediately following these footnotes.
- (3) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
- (4) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
- (5) Effective dayrates represent the average dayrate multiplied by the average utilization rate.
- (6) 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 of in-chartering third-party equipment paid by customers.

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 Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation, amortization and losses on early extinguishment of debt. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as a comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to it is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with accounting principles generally accepted in the United States, or 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 one of the financial metrics 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 bonuses paid to our executive officers and 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.

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The following table provides the detailed components of EBITDA, as we define that term, for the following periods (in thousands).

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Components of EBITDA:					
Net income (loss)	\$ 11,647	\$ 11,190	\$ (2,483)	\$ 4,268	\$ 12,961
Interest expense, net:					
Interest expense	16,207	18,523	17,698	9,801	5,438
Interest income	(667)	(178)	(356)	(106)	(243)
Total interest, net	15,540	18,345	17,342	9,695	5,195
Income tax expense (benefit)	7,139	6,858	(1,320)	2,500	7,615
Depreciation	10,351	14,393	17,408	8,556	9,211
Amortization	1,945	3,197	5,727	2,271	3,396
Loss on early extinguishment of debt(1)			22,443		1,698
EBITDA	\$ 46,622	\$ 53,983	\$ 59,117	\$ 27,290	\$ 40,076

(1) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, the amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% the 10.625% senior notes in November 2004. For the six months ended June 30, 2005, we incurred similar costs with respect to the redemption of the remaining 9% of the 10.625% senior notes.

The following table reconciles EBITDA to cash flows provided by operating activities for the following periods (in thousands).

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
EBITDA Reconciliation to GAAP:					
EBITDA	\$ 46,622	\$ 53,983	\$ 59,117	\$ 27,290	\$ 40,076
Cash paid for deferred drydocking charges	(2,409)	(6,100)	(8,530)	(4,523)	(3,687)
Cash paid for interest	(19,075)	(19,718)	(24,023)	(10,308)	(8,202)
Changes in working capital	(460)	(1,993)	(4,960)	515	1,499
Changes in other, net	277	(673)	(199)	(67)	(1,236)
Cash flows provided by operating activities	\$ 24,955	\$ 25,499	\$ 21,405	\$ 12,907	\$ 28,450

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

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

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

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

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

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

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RISK FACTORS

We urge you to carefully consider the risks described below as well as the other information we have provided in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference, before reaching a decision regarding an investment in our common stock. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Relating to our Business

Demand for our OSV services substantially depends on the level of activity in offshore oil and gas exploration, development and production.

The level of offshore oil and gas exploration, development and production activity has historically been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors that are beyond our control, including:

prevailing oil and natural gas prices and expectations about future prices and price volatility;

the cost of offshore exploration for, and production and transportation of, oil and natural gas;

worldwide demand for oil and natural gas;

consolidation of oil and gas and oil service companies operating offshore;

availability and rate of discovery of new oil and natural gas reserves in offshore areas;

local and international political and economic conditions and policies;

technological advances affecting energy production and consumption;

weather conditions;

environmental regulation; and

the ability of oil and gas companies to generate or otherwise obtain funds for exploration and production.

We expect levels of oil and gas exploration, development and production activity to continue to be volatile and affect the demand for our OSVs.

A prolonged, material downturn in oil and natural gas prices is likely to cause a substantial decline in expenditures for exploration, development and production activity, which would likely result in a corresponding decline in the demand for OSVs and thus decrease the utilization and dayrates of our OSVs. Such decreases could have a material adverse effect on our financial condition and results of operations. Moreover, increases in oil and natural gas prices and higher levels of expenditure by oil and gas companies for exploration, development and production may not necessarily result in increased demand for our OSVs.

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Increases in the supply of vessels could decrease dayrates.

Certain of our competitors have announced plans to construct new OSVs to be deployed in domestic and foreign locations. A remobilization to the U.S. Gulf of Mexico of U.S.-flagged OSVs currently operating in other regions would result in an increase in OSV capacity. Additionally, construction of double-hulled, ocean-going tank barges in sufficient size and number to exceed the replacement of the single-hulled tank barges that have been or still need to be retired under OPA 90 would create an increase in ocean-going tank barge capacity. Further, a repeal, suspension or significant modification of the Jones Act, or the administrative erosion of its benefits, permitting OSVs or tank barges that are either foreign-flagged, foreign-built, foreign-owned, foreign-controlled or foreign-operated to engage in the U.S. coastwise trade, would also result in an increase in capacity. Any increase in the supply of OSVs, whether through new construction, refurbishment or conversion of vessels from other uses, remobilization or changes in law or its application, could not only increase competition for charters and lower utilization and dayrates, which would adversely affect our revenues and profitability, but could also worsen the impact of any downturn in oil and natural gas prices on our results of operations and financial condition. Similarly, any increase in the supply of ocean-going tank barges, could not only increase competition for charters and lower utilization and dayrates, which could negatively affect our revenues and profitability, but could also worsen the impact of any reduction in domestic consumption of refined petroleum products or crude oil on our results of operations and financial condition.

Intense competition in our industry could reduce our profitability and market share.

Contracts for our OSVs and tank barges are generally awarded on an intensely competitive basis. The most important factors determining whether a contract will be awarded include:

quality and capability of the vessels;

ability to meet the customer's schedule;

safety record;

reputation;

price; and

experience.

Some of our competitors, including diversified multinational companies in the OSV segment, have substantially greater financial resources and larger operating staffs than we do. They may be better able to compete in making vessels available more quickly and efficiently, meeting the customer's schedule and withstanding the effect of declines in dayrates and utilization rates. They may also be better able to weather a downturn in the oil and gas industry. As a result, we could lose customers and market share to these competitors. Some of our competitors may also be willing to accept lower dayrates in order to maintain utilization, which can have a negative impact upon dayrates and utilization in our OSV segment.

The failure to successfully complete construction or conversion of our vessels on schedule and on budget and to utilize those and the other vessels in our fleet at profitable levels could adversely affect our financial condition and results of operations.

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We have three double-hulled, ocean-going tank barges currently under construction and two coastwise sulfur tankers currently undergoing conversion into MPSVs. We have also recently announced plans to construct additional new generation OSVs and double-hulled tank barges and may plan to construct other such vessels as market conditions warrant. Our construction projects are subject to the risks of delay and cost overruns inherent in any large construction project, including shortages of equipment, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, inability to obtain necessary certifications and approvals and shortages of materials or skilled labor. Significant delays could have a material adverse effect on anticipated contract commitments with respect to vessels under construction or conversion, while significant cost overruns or delays not adequately protected by liquidated damages provisions, in general could adversely affect our financial condition and results of operations. Moreover, customer demand for vessels currently under construction or conversion may not be as strong as we presently anticipate, and our inability to obtain contracts on anticipated terms or at all may have a material adverse effect on our revenues and profitability. In addition, our OSVs are typically chartered or hired to provide services to a specified drilling rig. A delay in the availability of the drilling rig to our customer may have an adverse impact on our utilization of the contracted vessel and thus on our financial condition and results of operations.

If we are unable to acquire additional vessels or businesses and successfully integrate them into our operations, our ability to grow may be limited.

We regularly consider possible acquisitions of single vessels, vessel fleets and businesses that complement our existing operations to enable us to grow our business. We can give no assurance that we will be able to identify desirable acquisition candidates or that we will be successful in entering into definitive agreements on satisfactory terms. An inability to acquire additional vessels or businesses may limit our growth potential. Even if we consummate an acquisition, we may be unable to integrate it into our existing operations successfully or realize the anticipated benefits of the acquisition. The process of integrating acquired operations into our own may result in unforeseen operating difficulties, may require significant management attention and financial resources.

Revenues from our tug and tank barge business could be adversely affected by a decline in demand for domestic refined petroleum products and crude oil or a change in existing methods of delivery in response to insufficient availability of tug and tank barge services and other conditions.

A reduction in domestic consumption of refined petroleum products or crude oil may adversely affect the revenues of our tug and tank barge business and, therefore, our financial condition and results of operation. Weather conditions also affect demand for our tug and tank barge services. For example, a mild winter may reduce demand for heating oil in the northeastern United States.

Moreover, alternative methods of delivery of refined petroleum products or crude oil may develop as a result of insufficient availability of tug and tank barge services, the cost of compliance with homeland security, environmental regulations or increased liabilities connected with the transportation of refined petroleum products and crude oil. For example,

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long-haul transportation of refined petroleum products and crude oil is generally less costly by pipeline than by tank barge. While there are significant impediments to building new pipelines, such as high capital costs and environmental concerns, entities may propose new pipeline construction to meet demand for petroleum products. To the extent new pipeline segments are built or existing pipelines converted to carry petroleum products, such activity could have an adverse effect on our ability to compete in particular markets.

The loss of our contract of affreightment with Amerada Hess Corporation or the early termination of contracts on our OSVs could have an adverse effect on our operations.

The revenues we derived from our long-term contract of affreightment with Amerada Hess for the year ended December 31, 2004, constituted more than 10% of our total revenues for such period. Under the terms of the contract of affreightment, we are required to meet certain performance criteria and, if we fail to meet such criteria, Amerada Hess would be entitled to terminate the contract. Should we fail to fulfill our performance obligations under the contract of affreightment, and Amerada Hess terminates the contract, it would adversely affect our financial condition and results of operations. Our contract of affreightment provides for minimum annual cargo volume to be transported and allows Amerada Hess to reduce its minimum commitment, subject to a significant adjustment penalty. Most of the long-term contracts for our OSVs contain early termination options in favor of the customer; however, some have substantial early termination penalties or other provisions designed to discourage the customers from exercising such options. We cannot assure that our customers would not choose to exercise their termination rights in spite of such penalties. Unless extended, our contract with Amerada Hess is scheduled to expire on March 31, 2006. Until replacement of such business with other customers, any termination could temporarily disrupt our business or otherwise adversely affect our financial condition and results of operations.

We are subject to complex laws and regulations, including environmental regulations, that can adversely affect the cost, manner or feasibility of doing business.

Increasingly stringent federal, state, local and foreign laws and regulations governing worker health and safety and the manning, construction and operation of vessels significantly affect our operations. Many aspects of the marine industry are subject to extensive governmental regulation by the United States Coast Guard, the National Transportation Safety Board and the United States Customs Service, and their foreign equivalents, and to regulation by private industry organizations such as the American Bureau of Shipping. The Coast Guard and the National Transportation Safety Board set safety standards and are authorized to investigate vessel accidents and recommend improved safety standards, while the Customs Service is authorized to inspect vessels at will. Our operations are also subject to federal, state, local and international laws and regulations that control the discharge of pollutants into the environment or otherwise relate to environmental protection. Compliance with such laws, regulations and standards may require installation of costly equipment, increased manning, or operational changes. Failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions, imposition of remedial obligations or the suspension or termination of our operations. Some environmental laws impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. These laws and regulations may expose us to liability for the conduct of, or conditions

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caused by, others, including charterers. Moreover, these laws and regulations could change in ways that substantially increase costs that we may not be able to pass along to our customers. Any changes in laws, regulations or standards that would impose additional requirements or restrictions could adversely affect our financial condition and results of operations.

We are also subject to the Merchant Marine Act of 1936, which provides that, upon proclamation by the President of a national emergency or a threat to the security of the national defense, the Secretary of Transportation may requisition or purchase any vessel or other watercraft owned by United States citizens (which includes United States corporations), including vessels under construction in the United States. If one of our OSVs, tugs or tank barges were purchased or requisitioned by the federal government under this law, we would be entitled to be paid the fair market value of the vessel in the case of a purchase or, in the case of a requisition, the fair market value of charter hire. However, if one of our tugs is requisitioned or purchased and its associated tank barge is left idle, we would not be entitled to receive any compensation for the lost revenues resulting from the idled barge. We would also not be entitled to be compensated for any consequential damages we suffer as a result of the requisition or purchase of any of our OSVs, tugs or tank barges. The purchase or the requisition for an extended period of time of one or more of our OSVs, tugs or tank barges could adversely affect our results of operations and financial condition.

Finally, we are subject to the Merchant Marine Act of 1920, commonly referred to as the Jones Act, which requires that vessels engaged in coastwise trade to carry cargo between U.S. ports be documented under the laws of the United States and be controlled by U.S. citizens. To ensure that we are determined to be a U.S. citizen as defined under these laws, our certificate of incorporation contains certain restrictions on the ownership of our capital stock by non-U.S. citizens and establishes certain mechanisms to maintain compliance with these laws. If we are determined at any time not to be in compliance with these citizenship requirements, our vessels would become ineligible to engage in the coastwise trade in U.S. domestic waters, and our business and operating results would be adversely affected. The Jones Act's provisions restricting coastwise trade to vessels controlled by U.S. citizens have recently been circumvented by foreign interests that seek to engage in trade reserved for vessels controlled by U.S. citizens and otherwise qualifying for coastwise trade. Legal challenges against such actions are difficult, costly to pursue and are of uncertain outcome. To the extent such efforts are successful and permit foreign competition, such competition could have a material adverse effect on domestic companies in the offshore service vessel industry and on our financial condition and results of operations. In addition, in the interest of national defense, the Secretary of Homeland Security is authorized to suspend the coastwise trading restrictions imposed by the Jones Act on vessels not controlled by U.S. citizens. Such a waiver was issued following Hurricane Katrina and was in effect on a temporary basis for tank vessels that carried petroleum products. A more limited waiver continues in existence for vessels that carry petroleum cargoes from the Strategic Petroleum Reserve.

Our business involves many operating risks that may disrupt our business or otherwise result in substantial losses, and insurance may be unavailable or inadequate to protect us against these risks.

Our vessels are subject to operating risks such as:

catastrophic marine disaster;

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adverse weather and sea conditions;

mechanical failure;

collisions;

oil and hazardous substance spills;

navigation errors;

acts of God; and

war and terrorism.

The occurrence of any of these events may result in damage to or loss of our vessels and their tow or cargo or other property and injury to passengers and personnel. If any of these events were to occur, we could be exposed to liability for resulting damages and possible penalties, that pursuant to typical marine indemnity policies, we must pay and then seek reimbursement from our insurer. Affected vessels may also be removed from service and thus be unavailable for income-generating activity. While we believe our insurance coverage is at adequate levels and insures us against risks that are customary in the industry, we may be unable to renew such coverage in the future at commercially reasonable rates. Moreover, existing or future coverage may not be sufficient to cover claims that may arise.

Our expansion into international markets subjects us to risks inherent in conducting business internationally.

Over the past three years we have derived an increasing portion of our revenues from foreign sources. We therefore face risks inherent in conducting business internationally, such as legal and governmental regulatory requirements, potential vessel seizure or nationalization of assets, import-export quotas or other trade barriers, difficulties in collecting accounts receivable and longer collection periods, political and economic instability, adverse tax consequences, difficulties and costs of staffing international operations, currency exchange rate fluctuations and language and cultural differences. All of these risks are beyond our control. We cannot predict the nature and the likelihood of any such events. If such an event should occur, however, it could have a material adverse effect on our financial condition and results of operations.

Future results of operations depend on the long-term financial stability of our customers.

Many of the contracts we enter into for our vessels are full utilization contracts with initial terms ranging from one to five years. We enter into these long-term contracts with our customers based on a credit assessment at the time of execution. Our financial condition in any period may therefore depend on the long-term stability and creditworthiness of our customers. We can provide no assurance that our customers will fulfill their obligations under our long-term contracts and the insolvency or other failure of a customer to fulfill its obligations under such contract could adversely affect our financial condition and results of operations.

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We may be unable to attract and retain qualified, skilled employees necessary to operate our business.

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. Our inability to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

We require skilled employees who can perform physically demanding work. As a result of the volatility of the oil and gas industry and the demanding nature of the work, potential employees may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with ours. With a reduced pool of workers, it is possible that we will have to raise wage rates to attract workers from other fields and to retain our current employees. If we are not able to increase our service rates to our customers to compensate for wage-rate increases, our financial condition and results of operations may be adversely affected.

Our employees are covered by federal laws that may subject us to job-related claims in addition to those provided by state laws.

Some of our employees are covered by provisions of the Jones Act, the Death on the High Seas Act and general maritime law. These laws preempt state workers' compensation laws and permit these employees and their representatives to pursue actions against employers for job-related incidents in federal courts. Because we are not generally protected by the limits imposed by state workers' compensation statutes, we may have greater exposure for any claims made by these employees.

Our success depends on key members of our management, the loss of whom could disrupt our business operations.

We depend to a large extent on the efforts and continued employment of our executive officers and key management personnel. We do not maintain key-man insurance. The loss of services of one or more of our executive officers or key management personnel could have a negative impact on our financial condition and results of operations.

Restrictions contained in the indenture governing the notes offered hereby and in the agreement governing our revolving credit facility may limit our ability to obtain additional financing and to pursue other business opportunities.

Covenants contained in the indenture governing the notes offered hereby and in the agreement governing our revolving credit facility require us to meet certain financial tests, which may limit or otherwise restrict:

our flexibility in operating, planning for, and reacting to changes, in our business;

our ability to dispose of assets, withstand current or future economic or industry downturns and compete with others in our industry for strategic opportunities; and

our ability to obtain additional financing for working capital, capital expenditures, including our newbuild programs, acquisitions, general corporate and other purposes.

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We have high levels of fixed costs that will be incurred regardless of our level of business activity.

Our business has high fixed costs, and downtime or low productivity due to reduced demand, weather interruptions or other causes can have a significant negative effect on our operating results and financial condition.

If we are required to retire our existing single-hulled tank barges earlier than anticipated due to either regulatory or other requirements, it could adversely affect our business.

OPA 90 requires that all newly-built tank vessels used in the transport of petroleum products be built with double hulls and provides for a phase-out period for existing single hull vessels. Modifying or replacing existing vessels to provide for double hulls will be required for all tank barges and tankers in the industry by the year 2015. A significant number of vessels in our tank barge fleet measure less than 5,000 gross tons. Under current law, certain of our vessels may continue to operate without double hulls through 2014. However, if there are changes in the law that accelerate the time frame for retirement of such vessels, or if customer policies or preferences that mandate the use of double-hulled vessels become significantly more prevalent, absent our implementation of a more aggressive replacement or newbuild program, such changes in law or in customer mandates could adversely affect our results of operations and financial condition.

Risks Related To This Offering

We have no plans to pay dividends on our common stock. You may not receive funds without selling your shares.

We currently intend to retain any future earnings to finance the growth, development and expansion of our business. Accordingly, we do not intend to declare or pay any dividends on our common stock for the foreseeable future. The declaration, payment and amount of future dividends, if any, will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, results of operations, cash flow from operations, current and anticipated capital requirements and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the indenture governing our 6.125% senior notes and the agreement governing our revolving credit facility include restrictions on our ability to pay cash dividends without meeting certain financial ratios and obtaining the consent of the lenders.

Our management and directors beneficially own, control or have substantial influence over a significant amount of common stock, giving them a controlling influence over corporate transactions and other matters. Their interests may conflict with yours, and the concentration of ownership of our common stock by such stockholders will limit the influence of public stockholders.

Upon completion of this offering, our management, directors and their respective affiliates, beneficially own, control or have substantial influence over approximately 18% of our outstanding common stock. If these stockholders voted together as a group, they would have the ability to exert significant influence over our board of directors and its policies. These stockholders would, acting together, be able to substantially influence the outcome of

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stockholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in our certificate of incorporation or bylaws and possible mergers, corporate control contests and other significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, a merger, consolidation, takeover or other business combination. This concentration of ownership could also discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could in turn have an adverse effect on the market price of our securities.

The price of our shares of common stock may fluctuate significantly in the future, and you could lose all or a part of your investment as a result.

The trading price of our common stock could be subject to significant fluctuations, and may decline. The following factors could affect our stock price:

government regulations;

the prices of oil and gas;

our operating results;

quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and revenues;

changes in earnings estimates by securities analysts or our ability to meet those estimates;

speculation in the press or investment community;

general market conditions, including fluctuations in commodity prices;

news announcements regarding the oil and gas or related industries in general, our customers, our competitors or us; or

other factors beyond our control.

The stock markets in general have also experienced extreme volatility that has often been unrelated to the operating performance of particular companies. This volatility and the realization of any of the risks described above could cause the market price of our common stock to decline significantly.

Future sales of our common stock could adversely affect its market price.

Following this offering, we will have a large number of shares of common stock outstanding and available for resale beginning at various points in time in the future. Sales of a substantial number of shares of our common stock in the public market after this offering, or the possibility that these sales may occur, could cause the market price for our common stock to decline. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell our common stock or other equity securities in the future at a time and at a price that we deem appropriate. As of September 23, 2005, there were 21,020,316 shares of our common stock outstanding, which are freely transferable without restriction or further registration under the federal securities laws, except for any shares held by our affiliates, sales of which will be limited by Rule 144 under the Securities Act, absent registration under the Securities Act and for certain limited contractual restrictions applicable to certain shares.

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Provisions of our certificate of incorporation, bylaws, stockholder rights plan and Delaware law could deter takeover attempts.

Our certificate of incorporation and bylaws, Delaware corporations law, and our stockholder rights plan contain provisions that could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

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USE OF PROCEEDS

We will receive net proceeds of approximately \$205.4 million from the sale of 6,100,000 shares of our common stock in this offering, after deducting the underwriting discounts and commissions and our estimated offering expenses. If the underwriters option to purchase 1,215,000 additional shares is exercised in full, we will receive net proceeds of approximately \$246.4 million. We expect to use the net proceeds of this offering, in addition to an estimated \$73.1 million of net proceeds from the concurrent private placement of our senior notes, to fund a portion of the costs of the construction of OSVs, ocean-going tugs and ocean-going, double-hulled tank barges, the retrofit or conversion of certain existing vessels, including MPSVs, possible future acquisitions and additional new vessel construction, and for general corporate purposes. We do not currently have any agreements or understandings with respect to any acquisition targets. Pending these uses, we will repay debt under our revolving credit facility, which may be reborrowed. An affiliate of one of the underwriters for this offering is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering. Until the net proceeds are used for any of these purposes, we may deposit them in interest-bearing accounts or invest them in short-term marketable securities.

Our revolving credit facility, which matures on February 13, 2009, had an outstanding balance of \$21 million as of September 29, 2005, and accrues interest, at our option, at either (1) the prime rate announced by Citibank, N.A. in New York, plus a margin of up to 1.0%, or (2) the London Interbank Offered Rate, plus a margin of 1.5% to 3.5%.

The completion of our concurrent note offering is not contingent upon the completion of this common stock offering, and this common stock offering is not contingent upon the completion of the note offering.

We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder identified in this prospectus supplement.

We will retain a significant amount of discretion over the timing of the use and the application of the net proceeds.

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The following table sets forth our consolidated cash and cash equivalents and capitalization at June 30, 2005:

on a historical basis;

as adjusted to reflect the consummation of this offering of 6,100,000 shares of our common stock (assuming no exercise of the underwriters' option to purchase up to 1,215,000 additional shares); and

as further adjusted to reflect the consummation of the concurrent private offering in the principal amount of \$75,000,000 of 6.125% senior notes due 2014, at an issue price of 99.25% of principal amount.

The information in this table is unaudited. This table should be read in conjunction with our audited historical financial statements and the notes to those statements included in this prospectus supplement.

	As of June 30, 2005		
	Actual	As Adjusted	As Further Adjusted
	(In thousands)		
Cash and cash equivalents(1)	\$ 12,443	\$ 201,874	\$ 274,937
Debt:			
Revolving credit facility(2)	\$ 16,000	\$	\$
6.125% senior notes due 2014	225,000	225,000	225,000
6.125% senior notes due 2014, net of original issue discount of \$563			74,438
Total debt	241,000	225,000	299,438
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, 20,875, 26,975, and 26,975 issued and outstanding, actual, as adjusted and as further adjusted, respectively	209	270	270
Additional paid-in capital	164,109	369,479	369,479
Retained earnings	32,361	32,361	32,361
Accumulated other comprehensive income	41	41	41
Total stockholders' equity	196,720	402,151	402,151
Total capitalization	\$ 437,720	\$ 627,151	\$ 701,589

(1)

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Includes other available funds in addition to proceeds of this offering and the concurrent private offering of \$75 million of 6.125% senior notes due 2014.

- (2) The outstanding balance under the revolver on September 29, 2005 was \$21,000.

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Our common stock has been traded on the New York Stock Exchange under the symbol HOS since our initial public offering on March 26, 2004. The following table shows the high and low sales prices for our common stock for the periods presented.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2004		
First Quarter (from March 26, 2004 to March 31, 2004)	\$ 13.55	\$ 13.00
Second Quarter	13.75	10.15
Third Quarter	17.00	11.12
Fourth Quarter	21.50	14.44
Year Ended December 31, 2005		
First Quarter	\$ 26.14	\$ 18.10
Second Quarter	27.73	20.10
Third Quarter (through September 29, 2005)	36.90	26.81

On September 29, 2005, the last sales price of our common stock as reported on the New York Stock Exchange was \$36.10 per share.

As of September 23, 2005, there were 71 stockholders of record and approximately 3,000 beneficial owners of our common stock.

We currently intend to retain any future earnings to finance the growth, development and expansion of our business. Accordingly, we do not intend to declare or pay any dividends on our common stock for the foreseeable future. The declaration, payment and amount of future dividends, if any, will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, results of operations, cash flow from operations, current and anticipated capital requirements and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the indenture governing our 6.125% senior notes and the agreement governing our revolving credit facility include restrictions on our ability to pay cash dividends without meeting certain financial ratios and obtaining the consent of the lenders.

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(In thousands, except per share data and operating data)

Our selected historical consolidated financial information as of and for the periods ended December 31, 2000, 2001, 2002, 2003 and 2004 was derived from our audited historical consolidated financial statements. Our selected historical financial information as of and for the six-month periods ended June 30, 2004 and 2005 is derived from our unaudited consolidated financial statements. The data should be read in conjunction with and is qualified in its entirety by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations, Capitalization and our historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus supplement.

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Statement of Operations Data:							
Revenues	\$ 36,102	\$ 68,791	\$ 92,585	\$ 110,813	\$ 132,261	\$ 61,635	\$ 78,986
Operating expenses	15,524	25,135	36,337	46,805	58,520	28,047	31,468
Depreciation	4,250	6,501	10,351	14,393	17,408	8,556	9,211
Amortization	913	1,169	1,945	3,197	5,727	2,271	3,396
General and administrative expenses	3,078	8,039	9,681	10,731	14,759	6,292	8,571
Operating income	12,337	27,947	34,271	35,687	35,847	16,469	26,340
Loss on early extinguishment of debt(1)		3,029			22,443		1,698
Interest income	305	1,455	667	178	356	106	243
Interest expense	15,478	13,617	16,207	18,523	17,698	9,801	5,438
Other income (expense)(2)	(138)		55	706	135	(6)	1,129
Income (loss) before income taxes	(2,974)	12,756	18,786	18,048	(3,803)	6,768	20,576
Income tax expense (benefit)	1,550	5,737	7,139	6,858	(1,320)	2,500	7,615
Net income (loss)(3)	(4,524)	7,019	11,647	11,190	(2,483)	4,268	12,961
Per Share Data:							
Basic earnings (loss) per share	\$ (0.90)	\$ 0.68	\$ 0.96	\$ 0.84	\$ (0.13)	\$ 0.24	\$ 0.62
Diluted earnings (loss) per share	\$ (0.90)	\$ 0.67	\$ 0.94	\$ 0.82	\$ (0.13)	\$ 0.23	\$ 0.61
Weighted average basic shares outstanding	5,038	10,265	12,098	13,397	19,330	17,838	20,839
Weighted average diluted shares outstanding	5,038	10,514	12,428	13,604	19,330	18,317	21,274
Balance Sheet Data (at period end):							
Cash and cash equivalents	\$ 32,988	\$ 53,203	\$ 22,228	\$ 12,899	\$ 54,301	\$ 23,734	\$ 12,443
Working capital	29,524	48,516	22,265	17,698	52,556	30,532	27,832
Property, plant and equipment, net	98,935	180,781	226,232	316,715	361,219	343,077	422,363
Total assets	147,148	258,817	278,290	365,242	460,571	404,231	487,069
Total long-term debt(4)	82,557	171,976	172,306	212,677	225,000	172,379	241,000
Total stockholders' equity	38,197	59,866	71,876	112,395	182,904	189,699	196,720
Statement of Cash Flows Data:							
Net cash provided by (used in):							
Operating activities	\$ 5,741	\$ 33,345	\$ 24,955	\$ 25,499	\$ 21,405	\$ 12,907	\$ 28,450
Investing activities	(15,324)	(88,328)	(55,771)	(98,166)	(61,378)	(35,307)	(69,393)
Financing activities	36,427	75,198	(159)	63,322	81,358	33,225	(924)
Other Financial Data (unaudited):							
EBITDA(5)	\$ 17,362	\$ 35,617	\$ 46,622	\$ 53,983	\$ 59,117	\$ 27,290	\$ 40,076
Capital expenditures	15,324	88,328	55,771	105,816	61,378	35,307	71,434
Ratio of EBITDA to cash interest paid(6)	1.1x	2.3x	2.9x	2.9x	3.3x	2.8x	7.4x
Ratio of earnings to fixed charges(7)		1.5x	1.7x	1.7x	0.7x	1.5x	3.4x

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	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Other Operating Data (unaudited):							
<i>Offshore Supply Vessels:</i>							
Average number of vessels	6.8	7.8	11.0	17.3	22.8	22.7	24.2
Average vessel capacity (deadweight tons)	1,900	1,947	2,208	2,353	2,274	2,270	2,325
Average utilization rate(8)	93.4%	99.1%	94.9%	88.6%	87.5%	81.1%	95.5%
Average dayrate(9)	\$ 8,435	\$ 11,872	\$ 12,176	\$ 10,940	\$ 10,154	\$ 9,636	\$ 11,980
Effective dayrate(10)	7,878	11,765	11,555	9,693	8,885	7,815	11,441
<i>Tugs and Tank Barges:</i>							
Average number of tank barges	7.0	12.3	16.0	15.9	16.0	16.0	13.7
Average fleet capacity (barrels)	451,655	847,780	1,130,727	1,145,064	1,156,330	1,156,330	968,002
Average barge size (barrels)	64,522	68,109	70,670	72,082	72,271	72,271	69,143
Average utilization rate(8)	71.4%	84.4%	78.1%	73.6%	82.2%	85.8%	85.5%
Average dayrate(11)	\$ 8,982	\$ 8,944	\$ 9,499	\$ 10,971	\$ 11,620	\$ 11,181	\$ 12,924
Effective dayrate(10)	6,413	7,549	7,419	8,075	9,552	9,560	11,050

- (1) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, the amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% of the 10.625% senior notes in November 2004. For the six-month period ended June 30, 2005, we incurred similar costs with respect to the redemption of the remaining 9% of the 10.625% senior notes.
- (2) Represents other operating income and expenses, including gains (losses) on the disposition of assets and equity in income from investments.
- (3) Includes goodwill amortization of \$126 for each of the two years in the period ended December 31, 2001. Effective January 1, 2002, SFAS No. 142 *Goodwill and Other Intangible Assets* required that goodwill and other indefinite-lived assets no longer be amortized, but instead be reviewed for impairment annually or more frequently if circumstances indicate potential impairment. Net income (loss) would have been \$(4,398) and \$7,145 for the years ended December 31, 2000 and 2001, respectively, if SFAS 142 had been in effect on January 1, 2000.
- (4) Excludes original issue discount associated with our 10.625% senior notes in the principal amount of \$175,000, in the amount of \$2,694, \$2,323 and \$0 as of December 31, 2002, 2003 and 2004, respectively, and \$2,121 and \$0 for the six months ended June 30, 2004 and 2005, respectively. We repurchased 91% of the 10.625% senior notes in November 2004 and redeemed the remaining 9% of such senior notes in January 2005. Long-term debt as of December 31, 2003 and June 30, 2005 includes \$40,000 and \$16,000, respectively, outstanding under our revolving credit facility, which was undrawn as of December 31, 2002 and 2004 and June 30, 2004.
- (5) See our discussion of EBITDA as a non-GAAP financial measure and related reconciliation immediately following these footnotes.
- (6) Calculated as EBITDA divided by interest expense. For purposes of calculating the ratio of EBITDA to interest expense, EBITDA consists of the components described in our discussion of EBITDA immediately following these footnotes.
- (7) Calculated as earnings divided by fixed charges. For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges, excluding capitalized interest. Fixed charges consist of interest whether expensed or capitalized and amortization of loan costs. In fiscal year 2000, our earnings were insufficient to cover fixed charges by approximately \$3.3 million.
- (8) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.

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- (9) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
- (10) Effective dayrates represent the average dayrate multiplied by the average utilization rate.
- (11) 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 of in-chartering third-party equipment paid by customers.

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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 Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation, amortization and losses on early extinguishment of debt. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as a comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to it 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 one of the financial metrics 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 bonuses paid to our executive officers and 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.

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The following table provides the detailed components of EBITDA, as we define that term, for the following periods (in thousands).

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Components of EBITDA:							
Net income (loss)	\$ (4,524)	\$ 7,019	\$ 11,647	\$ 11,190	\$ (2,483)	\$ 4,268	\$ 12,961
Interest expense, net:							
Debt obligations	8,216	10,665	16,207	18,523	17,698	9,801	5,438
Put warrants(1)	7,262	2,952					
Interest income	(305)	(1,455)	(667)	(178)	(356)	(106)	(243)
Total interest, net	15,173	12,162	15,540	18,345	17,342	9,695	5,195
Income tax expense (benefit)	1,550	5,737	7,139	6,858	(1,320)	2,500	7,615
Depreciation	4,250	6,501	10,351	14,393	17,408	8,556	9,211
Amortization	913	1,169	1,945	3,197	5,727	2,271	3,396
Loss on early extinguishment of debt(2)		3,029			22,443		1,698
EBITDA	\$ 17,362	\$ 35,617	\$ 46,622	\$ 53,983	\$ 59,117	\$ 27,290	\$ 40,076

- (1) Interest expense from put warrants represents an adjustment to the estimated fair value of the put warrants. According to the Emerging Issues Task Force, or EITF, Issue 88-9, as supplemented by EITF Issue 00-19, which we have adopted, we are required to account for warrants that contain put options at their estimated fair value with the changes reported as interest. We repurchased and terminated all of the warrants for \$14,500 in October 2001.
- (2) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, the amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% the 10.625% senior notes in November 2004. For the six months ended June 30, 2005, we incurred similar costs with respect to the redemption of the remaining 9% of the 10.625% senior notes.

The following table reconciles EBITDA to cash flows provided by operating activities for the following periods (in thousands).

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
EBITDA Reconciliation to GAAP:							
EBITDA	\$ 17,362	\$ 35,617	\$ 46,622	\$ 53,983	\$ 59,117	\$ 27,290	\$ 40,076
Cash paid for deferred drydocking charges	(1,491)	(1,745)	(2,409)	(6,100)	(8,530)	(4,523)	(3,687)
Cash paid for interest	(7,145)	(5,577)	(19,075)	(19,718)	(24,023)	(10,308)	(8,202)
Changes in working capital	(2,908)	4,972	(460)	(1,993)	(4,960)	515	1,499
Changes in other, net	(77)	78	277	(673)	(199)	(67)	(1,236)
Cash flows provided by operating activities	\$ 5,741	\$ 33,345	\$ 24,955	\$ 25,499	\$ 21,405	\$ 12,907	\$ 28,450

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

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

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

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

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following management's discussion and analysis should be read in conjunction with our historical consolidated financial statements and their notes included elsewhere in this prospectus supplement. 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 as a result of certain factors, such as those set forth under Risk Factors and elsewhere in this prospectus supplement.

General

We own a fleet of 25 technologically advanced, new generation OSVs, which include two foreign-flagged AHTS vessels that primarily operate as supply vessels and for towing jack-up rigs. We also own and operate one fast supply vessel and own two former coastwise sulfur tankers that are to be converted into MPSVs. Currently, 17 of our OSVs are operating in the U.S. Gulf of Mexico, eight of our OSVs are operating offshore Trinidad, and a fast supply vessel is working offshore Mexico. We also own 14 ocean-going tugs and 15 active ocean-going tank barges, three of which are double-hulled. Currently, 13 of our tank barges are operating in the northeastern United States, primarily New York Harbor, and two are operating in Puerto Rico. By the end of calendar 2005, our tug and tank barge segment is expected to consist of 14 ocean-going tugs and 18 ocean-going tank barges, six of which will be double-hulled. This projected fleet count reflects three double-hulled tank barges under construction and is net of the retirement of three single-hulled tank barges at the end of 2004, two of which are currently inactive and unavailable to transport petroleum products in navigable waters of the United States. The third inactive vessel, the *Energy 9801*, was sold in April 2005. Upon completion of this current newbuild program and our recently announced second tug and tank barge newbuild program, 58% of our tank barge fleet barrel capacity is expected to be double-hulled, up from 29% today.

We charter our OSVs on a dayrate basis, under which the customer pays us a specified dollar amount for each day during the term of the contract, pursuant to either fixed term or spot time charters. A fixed term time charter is a contract for a fixed period with a specified dayrate, generally paid monthly. Spot time charters in the OSV industry are generally charter contracts with either relatively short fixed or indefinite terms. In all time charters, spot or fixed, the vessel owner absorbs crew, insurance and repair and maintenance costs in connection with the operation of the vessel, while customers absorb all other direct operating costs. In addition, in a typical time charter, the charterer obtains the right to direct the movements and utilization of the vessel while the vessel owner retains operational control over the vessel.

All of our OSVs and our fast supply vessel operate under time charters, including ten that are chartered under long-term contracts with expiration dates ranging from October 2005 through April 2007. The long-term contracts for our supply vessels are consistent with those used in the industry and are typically either fixed for a term of one or more years or are tied to the duration of a long-term contract for a drilling rig for which the vessel provides services. These contracts generally contain, among others, provisions governing insurance, reciprocal indemnifications, performance requirements and, in certain instances, dayrate escalation terms and renewal options.

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While OSVs service existing oil and gas production platforms as well as exploration and development activities, incremental OSV demand depends primarily upon the level of drilling activity, which can be influenced by a number of factors, including oil and natural gas prices and drilling budgets of exploration and production companies. As a result, utilization rates have historically been tied to oil and natural gas prices and drilling activity. However, the relatively large capital commitments, longer lead times and investment horizons associated with deepwater and deep well projects have diminished the significance of these factors compared to conventional shelf projects.

We have developed, through a series of newbuild programs, a proprietary fleet of 200, 240, and 265 class new generation OSVs to meet the diverse needs of our customers. Through acquisitions, we have broadened the mix of our fleet to include additional 200 class vessels that are well suited for deep shelf gas exploration and other complex shelf drilling applications and to fill the increasing demand for modern equipment for conventional drilling on the Continental Shelf. We have continued our efforts to expand the services that we offer our customers with the acquisition of two AHTS vessels, which will primarily serve as 240 class supply vessels and for towing jack-up rigs, and the recent announcement of the conversion of two coastwise sulfur tankers for use as 370 class MPSVs, and our fourth OSV newbuild program that will add, in the aggregate, approximately 20,000 deadweight tons of capacity to our OSV fleet.

Although the demand for new generation equipment has historically been driven by deepwater, deep shelf and highly complex projects, we are experiencing increased demand for our vessels for all types of projects, including transition zone and shelf activity, irrespective of water depth, drilling depth or project type, and non-oil and gas production activities. Notably, this prevailing shift in customer preference does not appear to be limited to the U.S. Gulf of Mexico, as we have also observed this preference in foreign areas such as Mexico, Trinidad, Brazil and West Africa.

Soft market conditions for OSVs in the U.S. Gulf of Mexico persisted from the second half of 2002 through the first half of 2004. Since the second half of 2004, OSV market conditions in the U.S. Gulf of Mexico have improved substantially. Our average dayrates have risen approximately \$3,600 since April 2004 to an average of approximately \$13,200 per day for the third quarter 2005, to date, while our fleetwide OSV utilization has risen from roughly 70% to 97% over the same time span. This combination of increased dayrates and utilization has resulted in an increase in our effective, or utilization-adjusted, OSV dayrate of approximately 90% since April 2004.

Market conditions in the U.S. Gulf of Mexico continue to show positive trends such as the increased level of approved applications to drill deepwater wells and certain operators' construction commitments for new deepwater floating rigs, deep shelf jack-up rigs, floating production units, subsea tie-backs and other deepwater production infrastructure and the additional demand for vessels in connection with rehabilitating infrastructure damaged by Hurricanes Katrina and Rita. Another indication of the encouraging visible demand is rising dayrates and utilization for all classes of offshore rigs, which in the past has been a barometer for OSV dayrates. The supply fundamentals for new generation OSVs could further impact market conditions. The average age of conventional 180 class OSVs is approximately 25 years; therefore, we expect that there will be a continued and accelerated attrition rate for such vessels working in the U.S. Gulf of Mexico and abroad. Although OSVs have been recently constructed to replace the worldwide conventional 180 class tonnage being removed

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from service, several U.S.-flagged new generation OSVs have left the U.S. Gulf of Mexico for foreign markets, which is a trend that we expect to continue. Additionally, there are signs that the improved market conditions in the U.S. Gulf of Mexico could be a long-term trend. For example, in the offshore oil and natural gas lease sale held in August 2004 by the Minerals Management Service, interest in acquiring leases was the highest it had been in the prior six years, a 22% increase from 2003, with 44% of the leases bid on being located in ultra-deep water. Additional evidence of a strengthening OSV market in the U.S. Gulf of Mexico is an increase in offshore rig fleet utilization. According to ODS-Petrodata, offshore rig fleet utilization is up to 84% from the year-ago level of 77%.

Generally, we operate an ocean-going tug and tank barge together as a tow to transport petroleum products between U.S. ports and along the coast of Puerto Rico. We operate our tugs and tank barges under fixed time charters, spot time charters, contracts of affreightment and consecutive voyage contracts. A fixed term time charter is a contract for a fixed period of time with a specified day rate, generally paid monthly. Spot time charters in the tug and tank barge industry are generally single-voyage contracts of affreightment, consecutive voyage contracts, or time charter contracts with either relatively short fixed or indefinite terms. A consecutive voyage contract is a contract for the transportation of cargo for a specified number of voyages between designated ports over a fixed period of time under which we are paid based on the volume of products we deliver per voyage. Under consecutive voyage contracts, in addition to earning revenues for volumes delivered, we earn a standby hourly rate between voyages. We may also charter vessels to a third party under a bareboat charter. A bareboat charter is a net lease in which the charterer takes full operational control over the vessel for a specified period of time for a specified daily rate that is generally paid monthly to the vessel owner. The bareboat charterer is solely responsible for the operation and management of the vessel and must provide its own crew and pay all operating and voyage expenses. We also provide tug services to third party vessels on a periodic basis. Typically, these services include vessel docking and towage assistance.

The primary demand drivers for our tug and tank barge services are population growth, the strength of the U.S. economy, changes in weather, oil prices and competition from alternate energy sources. The tug and tank barge market, in general, is marked by steady demand over time. Results for the first and fourth quarters of a given year are typically higher due to normal seasonal winter-weather patterns that typically result in a drop-off of activity during the second and third quarters. We generally take advantage of this seasonality to prepare our tug and tank barge fleet for peak demand periods by performing our regulatory drydocking and maintenance programs during the second and third quarters. In addition, we regularly evaluate our customers needs and often elect to accelerate scheduled drydockings to take advantage of certain market opportunities.

As the most recent major OPA 90 milestone approached on January 1, 2005 and since that date, customer demand for double-hulled equipment has led to increases in dayrates for this equipment, particularly for tank barges in black oil service. We are actively working to ensure that our fleet is well positioned to take advantage of these opportunities as they develop. In November 2003, we commenced a double-hulled tank barge newbuild program to replace some of our existing single-hulled tank barges that we anticipated retiring from service in accordance with OPA 90. This newbuild program is replacing about 270,000 barrels of single-hulled capacity that we retired from service at the end of 2004 pursuant to OPA 90

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with approximately 600,000 barrels of new double-hulled capacity. Our first two new double-hulled tank barges, the *Energy 13501* and *Energy 11103*, were delivered on March 11, 2005 and July 10, 2005, respectively, and replaced the capacity of the *Energy 9801*, *Energy 9501*, and *Energy 8701*, all of which were retired from service at the end of 2004 as required by OPA 90. The remaining three newbuild tank barges are expected to be delivered during the fourth quarter of 2005.

Our operating costs are primarily a function of fleet size and utilization levels. The most significant direct operating costs are wages paid to vessel crews, maintenance and repairs and marine insurance. Because most of these expenses are incurred regardless of vessel utilization, our direct operating costs as a percentage of revenues may fluctuate considerably with changes in dayrates and utilization.

In addition to the operating costs described above, we incur fixed charges related to the depreciation of our fleet and costs for routine drydock inspections and maintenance and repairs necessary to ensure compliance with applicable regulations and to maintain certifications for our vessels with the U.S. Coast Guard and various classification societies. The aggregate number of drydockings and other repairs undertaken in a given period determines the level of maintenance and repair expenses and marine inspection amortization charges. We generally capitalize costs incurred for drydock inspection and regulatory compliance and amortize such costs over the period between such drydockings, typically 30 or 60 months. Applicable maritime regulations require us to drydock our vessels twice in a five-year period for inspection and routine maintenance and repair. If we undertake a large number of drydockings in a particular fiscal period, comparative results may be affected.

Critical Accounting Policies

Our consolidated financial statements included in this prospectus supplement have been prepared in accordance with accounting principles generally accepted in the United States. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon 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. We believe that of our significant accounting policies discussed in Note 2 to our consolidated financial statements, the following may involve estimates that are inherently more subjective.

Purchase Accounting. Purchase accounting requires extensive use of estimates and judgments to allocate the cost of an acquired enterprise to the assets acquired and liabilities assumed. The cost of each acquired operation is allocated to the assets acquired and liabilities assumed based on their estimated fair values. These estimates are revised during an allocation period as necessary when, and if, information becomes available to further define and quantify the value of the assets acquired and liabilities assumed. For example, costs related to the recertification of acquired vessels that are drydocked within the allocation period immediately following the acquisition of such vessels are reflected as an adjustment to the value of the vessels acquired and the liabilities assumed related to the drydocking. The adjusted basis of the vessel is depreciated over the estimated useful lives of the vessel. The allocation period does not exceed one year from the date of the acquisition. To the extent

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additional information to refine the original allocation becomes available during the allocation period, the allocation of the purchase price is adjusted. For example, if an acquired vessel was subsequently disposed of within the allocation period, the sales price of the vessel would be used to adjust the original assigned value to the vessel at the date of acquisition such that no gain or loss would be recognized upon disposition during the allocation period. If information becomes available after the allocation period, those items are reflected in operating results.

Carrying Value of Vessels. We depreciate our tugs, tank barges, and OSVs over estimated useful lives of 14 to 25 years, three to 25 years and 20 to 25 years, respectively. The useful lives used for single-hulled tank barges is based on their classification under OPA 90, and for double-hulled tank barges it is 25 years. In assigning depreciable lives to these assets, we have considered the effects of both physical deterioration largely caused by wear and tear due to operating use and other economic and regulatory factors that could impact commercial viability. To date, our experience confirms that these policies are reasonable, although there may be events or changes in circumstances in the future that indicate the recoverability of the carrying amount of a vessel might not be possible. Examples of events or changes in circumstances that could indicate that the recoverability of a vessel's carrying amount should be assessed might include a change in regulations such as OPA 90, a significant decrease in the market value of a vessel and current period operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with a vessel. If events or changes in circumstances as set forth above indicate that a vessel's carrying amount may not be recoverable, we would then be required to estimate the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the vessel, we would be required to recognize an impairment loss.

Recertification Costs. Our tugs, tank barges and OSVs are required by regulation to be recertified after certain periods of time. These recertification costs are incurred while the vessel is in drydock where other routine repairs and maintenance are performed and, at times, major replacements and improvements are performed. We expense routine repairs and maintenance as they are incurred. Recertification costs can be accounted for in one of three ways: (1) defer and amortize, (2) accrue in advance, or (3) expense as incurred. Companies in our industry use either the defer and amortize or the expense as incurred accounting method. We defer and amortize recertification costs over the length of time in which the recertification is expected to last, which is generally 30 or 60 months. Major replacements and improvements, which extend the vessel's economic useful life or functional operating capability, are capitalized and depreciated over the vessel's remaining economic useful life. Inherent in this process are estimates we make regarding the specific cost incurred and the period that the incurred cost will benefit.

Revenue Recognition. We charter our OSVs to customers under time charters based on a daily rate of hire and recognize revenue as earned on a daily basis during the contract period of the specific vessel. Tugs and tank barges are contracted to customers primarily under contracts of affreightment, under which revenue is recognized based on the number of days incurred for the voyage as a percentage of total estimated days applied to total estimated revenues. Voyage related costs are expensed as incurred. Substantially all voyages under these contracts are less than 10 days in length. We also contract our tugs and

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tank barges under time charters based on a daily rate of hire. Revenue is recognized on such contracts as earned on a daily basis during the contract period of the specific vessel.

Allowance for Doubtful Accounts. Our customers are primarily major and independent, domestic and international, oil and oil service companies. Our customers are granted credit on a short-term basis and related credit risks are considered minimal. We usually do not require collateral. We provide an estimate for uncollectible accounts based primarily on management's judgment. Management uses historical losses, current economic conditions and individual evaluations of each customer to make adjustments to the allowance for doubtful accounts. Our historical losses have not been significant. However, because amounts due from individual customers can be significant, future adjustments to the allowance can be material if one or more individual customers balances are deemed uncollectible.

Income Taxes. We follow SFAS No. 109, Accounting for Income Taxes. SFAS 109 requires the use of the liability method of computing deferred income taxes. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The assessment of the realization of deferred tax assets, particularly those related to tax operating loss carryforwards, involves the use of management's judgment to determine whether it is more likely than not that we will realize such tax benefits in the future.

Results of Operations

The tables below set forth, by segment, the average dayrates and utilization rates and effective dayrates for our vessels and the average number of vessels owned during the periods indicated. These OSVs and tug and tank barges generate substantially all of our revenues and operating profit. The table does not include the results of operations of the *HOS Hotshot*, a 165-ft. fast supply vessel that we had been operating under a bareboat charter since it was delivered in April 2003. We exercised our option to purchase that vessel in May 2004.

	Year Ended			Six Months Ended	
	December 31,			June 30,	
	2002	2003	2004	2004	2005
Offshore Supply Vessels:					
Average number of vessels	11.0	17.3	22.8	22.7	24.2
Average vessel capacity (deadweight tons)	2,208	2,353	2,274	2,270	2,325
Average utilization rate(1)	94.9%	88.6%	87.5%	81.1%	95.5%
Average dayrate(2)	\$ 12,176	\$ 10,940	\$ 10,154	\$ 9,636	\$ 11,980
Effective dayrate(4)	11,555	9,693	8,885	7,815	11,441
Tugs and Tank Barges:					
Average number of tank barges	16.0	15.9	16.0	16.0	13.3
Average fleet capacity (barrels)	1,130,727	1,145,064	1,156,330	1,156,330	968,002
Average barge size (barrels)	70,670	72,082	72,271	72,271	69,143
Average utilization rate(1)	78.1%	73.6%	82.2%	85.5%	85.5%

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Average dayrate(3)	\$	9,499	\$	10,971	\$	11,620	\$	11,181	\$	12,904
Effective dayrate(4)		7,419		8,075		9,552		9,560		11,050

- (1) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
- (2) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.

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- (3) 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.
- (4) Effective dayrates represent the average dayrate multiplied by the average utilization rate.

Summarized financial information concerning our reportable segments is shown below in the following table for the periods indicated (dollars in thousands):

	Year Ended			Six Months Ended	
	December 31,			June 30,	
	2002	2003	2004	2004	2005
Revenues by segment:					
Offshore supply vessels(1)					
Domestic	\$ 43,702	\$ 50,044	\$ 59,886	\$ 26,269	\$ 37,955
Foreign	2,676	12,358	15,407	6,650	12,459
	<u>46,378</u>	<u>62,402</u>	<u>75,293</u>	<u>32,919</u>	<u>50,414</u>
Tugs and tank barges					
Domestic	36,020	43,206	50,465	25,631	24,841
Foreign(2)	10,187	5,205	6,503	3,085	3,731
	<u>46,207</u>	<u>48,411</u>	<u>56,968</u>	<u>28,716</u>	<u>28,572</u>
	<u>\$ 92,585</u>	<u>\$ 110,813</u>	<u>\$ 132,261</u>	<u>\$ 61,635</u>	<u>\$ 78,986</u>
Operating expenses by segment:					
Offshore supply vessels	\$ 14,367	\$ 22,786	\$ 29,724	\$ 13,562	\$ 16,616
Tugs and tank barges	21,970	24,019	28,796	14,485	14,852
	<u>\$ 36,337</u>	<u>\$ 46,805</u>	<u>\$ 58,520</u>	<u>\$ 28,047</u>	<u>\$ 31,468</u>
Depreciation and amortization:					
Offshore supply vessels	\$ 5,830	\$ 9,381	\$ 12,876	\$ 6,192	\$ 7,177
Tugs and tank barges	6,466	8,209	10,259	4,635	5,430
	<u>\$ 12,296</u>	<u>\$ 17,590</u>	<u>\$ 23,135</u>	<u>\$ 10,827</u>	<u>\$ 12,607</u>
Loss on early extinguishment of debt	\$	\$	\$ 22,443	\$	\$ 1,698
General and administrative expenses	\$ 9,681	\$ 10,731	\$ 14,759	\$ 6,292	\$ 8,571
Interest expense	16,207	18,523	17,698	9,801	5,438
Interest income	667	178	356	106	243

Income tax expense (benefit)	7,139	6,858	(1,320)	2,500	7,615
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- (1) Included in OSV revenues are amounts applicable to our fast supply vessel, the *HOS Hotshot*, that we acquired in May 2004 along with the *HOS Saylor* and *HOS Navegante*, our AHTS vessels that we acquired in January and March 2005, respectively.
- (2) Included are amounts applicable to our Puerto Rico tug and tank barge operations. Puerto Rico is considered a possession of the United States and the Jones Act and U.S. environmental laws and regulations apply to vessels operating in Puerto Rican waters.

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Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Revenues. Revenues were \$79.0 million for the six months ended June 30, 2004, compared to \$61.6 million for the same period in 2004, an increase of \$17.4 million or 28.2%. Although our average operating fleet remained relatively flat since the second quarter of 2004, revenues primarily increased as a result of the strengthening market conditions in our OSV business segment. Our average operating fleet was 53 vessels at the end of the second quarter of 2005 compared to 51 vessels at the end of the second quarter of 2004.

Revenues from our OSV segment increased to \$50.4 million for the six months ended June 30, 2005, compared to \$32.9 million for the same period of 2004, an increase of \$17.5 million or 53.2%. Our revenue growth is primarily attributable to the increases in OSV utilization and dayrates compared to the prior year period and the addition of two AHTS vessels during 2005. Our utilization rate was 95.5% for the first six months of 2005 compared to 81.1% for the same period of 2004. Our OSV average dayrate was \$11,980 for the first six months of 2005 compared to \$9,636 for the same period of 2004, an increase of \$2,344 or 24.3%. The increase in dayrates and utilization is primarily related to the significant improvement in the U.S. Gulf of Mexico market. Domestic revenues for our OSV segment were \$38.0 million for the six months ended June 30, 2005, an increase of \$11.7 million or 44.5%, compared to \$26.3 million for the same period of 2004 due to the recovery of the OSV market in the U.S. Gulf of Mexico. Foreign revenues for our OSV segment increased to \$12.5 million for the six months ended June 30, 2005, compared to \$6.7 million for the same period of 2004, an increase of \$5.8 million or 86.6% due to having an average of 3.7 more vessels operating internationally during the first six months of 2005.

Revenues from our tug and tank barge segment were \$28.6 million for the six months ended June 30, 2005, which was roughly equal to the \$28.7 million in revenues for the same period of 2004, even though our barrel capacity was approximately 188,000 barrels lower during the 2005 period compared to the 2004 period. Our utilization rate of 85.5% remained flat for the first six months of 2005 compared to the same period in 2004. Our average dayrate of \$12,924 for the first six months of 2005 increased \$1,743 or 15.6% from the average dayrate of \$11,181 for the same period of 2004. The increase in dayrates is primarily attributed to higher demand for our equipment in the northeastern United States and the ability of the *Energy 13501* to command higher rates as a newbuild double-hulled tank barge with higher barrel-carrying capacity compared to our fleetwide average barrel-carrying capacity.

Operating Expense. Our operating expense increased to \$31.5 million for the six months ended June 30, 2005, compared to \$28.0 million for the same period of 2004, an increase of \$3.5 million or 12.5%. The increase in operating expense during 2005 is primarily due to the net effect of recent vessel acquisitions, newbuild deliveries and vessel retirements at the end of 2004 due to OPA 90.

Operating expense for our OSV segment increased \$3.0 million or 22.1% for the six months ended June 30, 2005 to \$16.6 million compared to \$13.6 million for the same period in 2004. This increase was related to significantly higher utilization and the addition of two AHTS vessels and one fast supply vessel to our fleet.

Operating expense for our tug and tank barge segment was \$14.9 million for the six months ended June 30, 2005, compared to \$14.5 million for the same period of 2004, an

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increase of \$0.4 million or 2.8%. Operating expenses remained relatively consistent between the two periods as a result of the net effect of removing three single-hulled tank barges from service as required by OPA 90 and the addition of two higher horsepower ocean-going tugs and one double-hulled newbuild tank barge.

Depreciation and Amortization. Our depreciation and amortization expense of \$12.6 million for the six months ended June 30, 2005 increased \$1.8 million or 16.7% compared to \$10.8 million for the same period of 2004. This increase is primarily related to the net impact of having two AHTS vessels, one 135,000-barrel barge, and two 6,000 horsepower tugs added to our fleet since the end of the second quarter of 2004.

General and Administrative Expense. Our general and administrative expense was \$8.6 million for the six months ended June 30, 2005, compared to \$6.3 million for the same period of 2004, an increase of \$2.3 million or 36.5%. We expected this increase due to our continued growth via vessel acquisitions, our newbuild and conversion programs and our increased reporting obligations under federal securities and corporate governance laws and stock exchange requirements.

Interest Expense. Interest expense was \$5.4 million for the six months ended June 30, 2005, compared to \$9.8 million for the same period of 2004, a decrease of \$4.4 million or 44.9%. The decrease in interest expense is attributed to the refinancing of our old 10.625% senior notes with our new 6.125% senior notes at the end of 2004. Capitalization of interest costs relating to new construction of vessels was approximately \$2.1 million and \$0.9 million for the six months ended June 30, 2005 and 2004, respectively.

Interest Income. Interest income was \$0.2 million in the six months ended June 30, 2005, an increase of \$0.1 million or 100%, compared to \$0.1 million for the same period of 2004. The increase in interest income is due to a higher average cash balance of \$33.4 million for the first six months of 2005 compared to \$18.3 million for the same period of 2004.

Income Tax Expense. Our effective tax rate was 37.0% and 36.9% for the six months ended June 30, 2005 and 2004, respectively. Our income tax expense primarily consists of deferred taxes due to our federal net operating loss carryforwards. Our income tax rate is higher than the federal statutory rate due primarily to expected state and foreign tax liabilities and items not deductible for federal income tax purposes.

Year Ended December 31, 2004 Compared To Year Ended December 31, 2003

Revenues. Revenues were \$132.3 million in 2004, compared to \$110.8 million in 2003, an increase of \$21.5 million or 19.4%. The increase in revenues was primarily the result of the year-over-year increase in the size of our fleet. Our operating fleet grew from an average of 45 vessels during 2003 to an average of 51 vessels during 2004. The additional revenues generated by newly constructed or acquired vessels that were not in operation during all of 2003 and 2004 accounted for \$15.8 million of the increase in our revenues. We also experienced a \$5.7 million increase in revenues from our 45 vessels that were in service during each of the years ended December 31, 2004 and 2003 due to improving market conditions in both of our business segments.

Revenues from our OSV segment increased to \$75.3 million in 2004, compared to \$62.4 million for 2003, an increase of \$12.9 million or 20.7%. Our average OSV fleet size grew by

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5.5 vessels during 2004 compared to 2003. The average utilization rate was 87.5% for 2004, compared to 88.6% for 2003. Although there was a 1.1% decrease in utilization for 2004, the early stages of 2004 were marked with utilization in the mid to low-80 s while the latter part of 2004 had utilization in the low to mid-90 s. Our OSV average dayrate was \$10,154 for 2004, compared to \$10,940 for 2003, a decrease of \$786 or 7.2%. The decrease in average dayrates primarily reflected the change in our average vessel size as 2004 was the first full year of operating results for the six 220 class vessels that were acquired in mid-2003. While our annual average dayrates were lower in 2004 compared to 2003, average dayrates for the fourth quarter of 2004 have returned to annual 2003 levels. Domestic revenues were also higher in 2004 than the prior year due mainly to the recovery of the OSV market in the U.S. Gulf of Mexico. Foreign revenues were positively impacted by having two additional vessels working internationally during 2004. Based on current market trends, we anticipate that our OSV utilization and average dayrates for each vessel class will remain at least above fourth quarter 2004 levels for 2005 and 2006.

Revenues from our tug and tank barge segment totaled \$57.0 million in 2004, compared to \$48.4 million in 2003, an increase of \$8.6 million or 17.8%. Our utilization rate increased to 82.2% for 2004, compared to 73.6% for 2003, primarily due to extended cold weather in the spring of 2004, fewer days out of service for drydockings and repairs in 2004 compared to 2003, and increased movements of diesel and unleaded gasoline barrels as gasoline inventories during the summer of 2004 were at 30-year seasonal record lows. Our average dayrates were \$649 higher in 2004 than the prior year as a tightening tank barge market in the northeastern United States contributed to higher freight rates and fuel shortages during the summer of 2004 that caused higher barrel movements for gasoline and diesel fuel.

Operating Expenses. Our operating expenses increased to \$58.5 million for 2004, compared to \$46.8 million in 2003, an increase of \$11.7 million or 25.0%. The increase in operating expenses was the result of having more vessels in service during 2004 compared to 2003 and increasing costs related to newly instituted Homeland Security measures, training, repair and maintenance, and insurance.

Operating expenses for our OSV segment increased \$6.9 million, or 30.3%, in 2004 to \$29.7 million, compared to \$22.8 million in 2003. This increase was primarily the result of having an average of six more new OSVs in service during 2004 compared to 2003. Daily operating costs per vessel in the OSV segment decreased over the same period in 2003, commensurate with the change in our fleet complement with the addition of six 220 vessels in mid-2003.

Operating expenses for our tug and tank barge segment was \$28.8 million for 2004, compared to \$24.0 million in 2003, an increase of \$4.8 million or 20.0%. The increase in operating expenses was primarily the result of higher fuel, insurance and personnel costs along with the increased cost of compliance of newly instituted Homeland Security measures. Average daily operating costs per vessel for 2004 increased over 2003 commensurately with the overall increase in operating expenses discussed above.

Depreciation and Amortization. Our depreciation and amortization expense of \$23.1 million for the year ended December 31, 2004 increased \$5.5 million or 31.3% compared to \$17.6 million for the same period in 2003. Depreciation and amortization were higher in 2004

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as a result of having an average of six additional vessels in our fleet and increased drydocking activity compared to the same period in 2003. These expenses are expected to increase further with the recent acquisition of two ocean-going tugs, one AHTS vessel and the construction of five double-hulled tank barges, and when these and any other recently acquired and newly constructed vessels undergo their initial 30 and 60 month recertifications.

Loss on Early Extinguishment of Debt. On November 3, 2004, we commenced a cash tender offer for all of the \$175 million in aggregate principal amount of our 10.625% senior notes. Senior notes totaling approximately \$159.5 million, or 91% of such notes outstanding, were validly tendered during the designated tender period. The remaining \$15.5 million of our 10.625% senior notes were redeemed on January 14, 2005. A loss on early extinguishment of debt of approximately \$22.4 million was recorded during the fourth quarter of 2004 and includes the tender offer costs and an allocable portion of the write off of unamortized financing costs and original issue discount, and a bond redemption premium. A loss on early extinguishment of debt of approximately \$1.7 million was recorded for the first quarter of 2005 for those costs allocable to the \$15.5 million of our 10.625% senior notes redeemed on January 14, 2005.

General and Administrative Expenses. Our general and administrative expenses were \$14.8 million for 2004, compared to \$10.7 million in 2003, an increase of \$4.1 million or 38.3%. This increase primarily resulted from increased overhead relating to the additional vessels purchased, the increased costs of operating as a public company and, during the fourth quarter 2004, several discrete charges related to increased employee bonuses, insurance and legal fees. General and administrative expenses are expected to trend higher in 2005 to accommodate our continued growth via vessel acquisitions, the construction of five double-hulled tank barges, and our increased reporting obligations under federal securities and corporate governance laws and stock exchange requirements. However, we expect the ratio of general and administrative expenses to revenues to remain at our historical levels at approximately 11% of revenues.

Interest Expense. Interest expense from debt obligations was \$17.7 million in 2004, compared to \$18.5 million in 2003, a decrease of \$0.8 million or 4.3%. The decrease in interest expense primarily relates to having an average balance outstanding under our revolving credit facility of \$12.0 million during 2004 compared to \$20.0 million during 2003 and having outstanding balances on such facility during only three months of 2004 compared to 11 months of 2003. Other factors causing a decrease in interest expense are continued increases in our capitalized interest due to the construction of double-hulled tank barges and the November 2004 issuance of 6.125% senior notes to repurchase a portion of our outstanding 10.625% senior notes. See *Liquidity and Capital Resources* for further discussion. Capitalization of interest costs relating to new construction of vessels was approximately \$3.0 million for 2004 compared to \$2.7 million for 2003.

Interest Income. Interest income was \$0.4 million in 2004, compared to \$0.2 million in 2003, an increase of \$0.2 million or 100%. The increase in interest income resulted from increased interest rates along with higher average cash balances invested during 2004 compared to 2003. Average cash balances were \$33.6 million and \$17.6 million for the years ended December 31, 2004 and 2003, respectively.

Income Tax Expense. We recorded an income tax benefit for 2004, compared to an income tax provision for 2003, due to a pre-tax loss attributable to an early extinguishment of

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debt. See *Liquidity and Capital Resources* for further discussion. We also recorded deferred taxes due to our federal tax net operating loss carryforwards primarily generated by accelerated depreciation for tax purposes of approximately \$95 million as of December 31, 2004. These loss carryforwards are available through 2018 to offset future taxable income. Our income tax rate is higher than the federal statutory rate due primarily to expected state and foreign tax liabilities and items not deductible for federal income tax purposes.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Revenues were \$110.8 million for 2003, compared to \$92.6 million for 2002, an increase of \$18.2 million or 19.7%. This increase in revenues is primarily the result of the year-over-year growth of our fleet. Our operating fleet grew from an average of 39 vessels during 2002 to an average of 45 vessels during 2003. The additional revenues generated by these six vessels accounted for \$14.5 million of the increase in our revenues. We also experienced a \$3.7 million increase in revenues from our 39 vessels that were in service during each of the years ended December 31, 2003 and 2002.

Revenues from our OSV segment increased to \$62.4 million for 2003, compared to \$46.4 million for 2002, an increase of \$16.0 million or 34.5%. Our utilization rate was 88.6% for 2003, compared to 94.9% in 2002. The increase in revenues was primarily the result of the year-over-year increase in the size of our fleet. The decrease in utilization was due to having fewer OSVs on long-term contracts and an increased proportion of vessels operating in the spot market, which is more susceptible to market fluctuations. The soft OSV spot market that began in mid-2002 continued throughout 2003. Our OSV average dayrate was \$10,940 for 2003, compared to \$12,176 in 2002, a decrease of \$1,236 or 10.2%. The decrease in average dayrates primarily reflects the addition of six 220 class OSVs, which typically experience lower dayrates, regardless of market conditions, than our 240 or 265 class vessels and continued dayrate weakness in the U.S. Gulf of Mexico. The fourth quarter of 2003 was the first quarter that reflected a full contribution of the operating results from all six of the new 220 class OSVs we acquired in mid-2003, causing a shift in our OSV vessel mix.

Revenues from our tug and tank barge segment totaled \$48.4 million for 2003 compared to \$46.2 million for 2002, an increase of \$2.2 million or 4.8%. The segment revenue increase was primarily due to the acquisition of one 80,000-barrel double-hulled tank barge on February 28, 2003. Our utilization rate decreased to 73.6% for 2003, compared to 78.1% for the same period of 2002 primarily due to more drydocking days occurring in 2003 and an increase in vessels operating under contracts of affreightment during the 2003 period. Our average dayrate increased \$1,472, or 15.5%, to \$10,971 for 2003 compared to \$9,499 for 2002. The increased dayrates were primarily driven by higher average barge capacities and a bareboat charter contract that was replaced by a time charter contract, the latter of which commands a higher dayrate.

Operating Expenses. Our operating expenses increased to \$46.8 million for 2003, compared to \$36.3 million for 2002, an increase of \$10.5 million or 28.9%. The increase in operating expenses was primarily the result of having more vessels in service in 2003 compared to 2002.

Operating expenses for our OSV segment increased \$8.4 million or 58.3% for 2003 to \$22.8 million, compared to \$14.4 million for 2002. This increase was primarily the result of five newly constructed, larger class OSVs being in service for substantially more days during 2003

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compared to 2002, and the acquisition of six 220 class OSVs in mid-2003. Daily operating costs per vessel for 2003 decreased over 2002, primarily due to a change in the OSV fleet complement in the second half of 2003.

Operating expenses for our tug and tank barge segment were \$24.0 million for 2003, compared to \$22.0 million for 2002, an increase of \$2.0 million or 9.1%. The operating expense increase was primarily due to the acquisition of the *Energy 8001* in February 2003. Average daily operating expenses per vessel in the tug and tank barge segment remained fairly constant.

Depreciation and Amortization. Our depreciation and amortization expense of \$17.6 million in 2003 increased \$5.3 million or 43.1% compared to \$12.3 million for the same period in 2002. Depreciation and amortization was higher in 2003 as a result of having an average of six additional vessels in our fleet and increased drydocking activity compared to the same period in 2003. These expenses were expected to increase further with the delivery of one OSV in early 2004 and once other recently acquired or newly constructed vessels underwent their initial 30 and 60 month recertifications.

General and Administrative Expenses. Our general and administrative expenses were \$10.7 million for 2003, compared to \$9.7 million for 2002, an increase of \$1.0 million or 10.3%. This increase primarily resulted from increased overhead relating to the costs associated with increased reporting obligations under federal securities laws incurred during 2003 but not in 2002 and the expansion of our fleet during 2003.

Interest Expense. Interest expense was \$18.5 million in 2003, compared to \$16.2 million in 2002, an increase of \$2.3 million or 14.2%. The increase in interest expense resulted from lower capitalized interest in 2003 of \$2.7 million related to the construction in progress of four vessels compared to \$3.9 million related to the construction of eight vessels in progress during 2002. In addition, the net increase in interest expense was impacted by an average balance outstanding under our revolving credit facility during calendar 2003 of \$20.0 million compared to 2002, when the facility was undrawn all year.

Interest Income. Interest income was \$0.2 million in 2003 compared to \$0.7 million in 2002, a decrease of \$0.5 million or 71.4%. Average cash balances were \$17.6 million and \$37.7 million for the years ended December 31, 2003 and 2002, respectively, which substantially contributed to the decrease in interest income during the year ended December 31, 2003.

Income Tax Expense. Our effective tax rate was 38.0% for 2003 and 2002. Our income tax expense primarily consists of deferred taxes due to our federal tax net operating loss carryforwards primarily generated by accelerated depreciation for tax purposes, of approximately \$37.4 million as of December 31, 2003, that are available through 2018 to offset future taxable income. Our income tax rate is higher than the federal statutory rate due primarily to expected state and foreign tax liabilities and items not deductible for federal income tax purposes.

Liquidity and Capital Resources

Our capital requirements have historically been financed with cash flow from operations, proceeds from issuances of our debt and common equity securities, and borrowings under

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our credit facilities. We require capital to fund ongoing operations, construction of new vessels, conversion or retrofit of existing vessels, acquisitions, vessel recertifications, discretionary capital expenditures and debt service. The nature of our capital requirements and the types of our financing sources are not expected to change significantly for the foreseeable future.

On June 30, 2005, we had a cash balance of \$12.4 million. We also have a five-year \$100 million senior secured revolving credit facility with a current borrowing base of \$60 million. As of June 30, 2005, we had \$16.0 million outstanding under the facility and \$44.0 million of credit immediately available thereunder. We intend to use the net proceeds of this offering and the concurrent private placement of our senior notes to pay down our revolving credit facility and for other uses described under Use of Proceeds. We have made, and may make additional, short-term draws on our revolving credit facility from time to time to satisfy scheduled capital expenditure requirements or for other corporate purposes. Any liquidity in excess of our planned capital expenditures will be utilized to repay debt or finance the implementation of our growth strategy, which includes expanding our fleet through the construction of new vessels, retrofit of existing vessels or acquisition of additional vessels, including OSVs, MPSVs, AHTS vessels, fast supply vessels, ocean-going tugs, tank barges and tankers, as needed to take advantage of the demand for such vessels.

We believe that our current working capital, projected cash flow from operations and available capacity under our revolving credit facility, will be sufficient to meet our cash requirements for the foreseeable future and, together with the proceeds of the concurrent note offering and this common stock offering, will fund the recently announced OSV and tug and tank barge newbuild programs. Although we expect to continue generating positive working capital through our operations, events beyond our control, such as mild winter conditions, a reduction in domestic consumption of refined petroleum products, or declines in expenditures for exploration, development and production activity may affect our financial condition or results of operations. However, depending on the market demand for OSVs, tugs and tank barges and other growth opportunities that may arise, we may require additional debt or equity financing. On August 31 and September 1, 2005, respectively, we filed with the Commission registration statements on Form S-3 and Form S-4 in connection with a \$350.0 million universal shelf and a \$150.0 million acquisition shelf. On September 15, 2005 each of these registration statements were declared effective by the Commission. On September 29, 2005, concurrent with this common stock offering, we offered \$75.0 million of our 6.125% senior notes at 99.25% of principal amount in a private placement.

Operating Activities. We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities totaled \$25.0 million in 2002, \$25.5 million in 2003, and \$21.4 million in 2004. The decrease in operating cash flows from 2003 to 2004 was due to increased cash outlays associated with OSV drydocking activity and the timing of interest payments resulting from the early extinguishment of debt in November 2004.

Cash flows from operating activities totaled \$28.5 million for the six months ended June 30, 2005, compared to \$12.9 million for the same period of 2004. The increase in operating cash flows during these periods was primarily related to substantially improved market conditions, the growth of our fleet and the net effect of the bond refinancing that we commenced in November 2004, which resulted in a lower interest rate and a change in the

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timing of our interest payments. Our cash flow from operations for the six months ended June 30, 2005 reflects a full period of revenue contribution from one OSV and one fast supply vessel added to our fleet during 2004 and partial period contributions from two AHTS vessels and one new double-hulled tank barge placed in service during 2005.

As of December 31, 2004, we had federal tax net operating loss carryforwards of approximately \$95 million available through 2018 to offset future federal taxable income. These federal tax net operating losses were generated primarily through accelerated tax depreciation applied to our vessels. Our use of these tax net operating losses and additional tax benefits may be limited due to U.S. tax laws. Based on the age and composition of our projected fleet, we expect to continue generating federal tax net operating losses over the near term.

In 2005, we expect to drydock a total of eight OSVs, two tugs, and four tank barges for recertification and/or discretionary vessel enhancements, which together with non-vessel capital expenditures related primarily to information technology initiatives, is estimated to cost in the range of \$13.0 million to \$14.0 million.

Investing Activities. Investing activities for 2004 were approximately \$61.4 million, primarily for the construction of new double-hulled tank barges, acquisition of a fast supply vessel and the acquisition and retrofitting of two ocean-going tugs, and miscellaneous capital expenditures. During 2003 investing activities were approximately \$99.8 million, primarily for the construction of new vessels, acquisitions of six OSVs and a double-hulled tank barge, and miscellaneous capital expenditures. These 2003 expenditures were offset by \$1.7 million in cash proceeds from the sale of one tank barge. During 2002, investing activities were \$56.1 million for new construction of vessels offset by \$0.3 million in cash proceeds from the sale of a tug.

Net cash used in investing activities was \$69.4 million for the six months ended June 30, 2005, compared to \$35.3 million for the same period of 2004. Cash utilized in investing activities for both periods was primarily for construction costs incurred for our current tank barge newbuild program and the acquisitions of vessels. During the 2005 period, we acquired two foreign-flagged AHTS vessels and one coastwise tanker, the latter of which will be retrofitted under the MPSV conversion program described below. The *HOS Saylor* and *HOS Navegante* were purchased in January and March 2005, respectively. The aggregate purchase price and estimated retrofit costs for these two AHTS vessels is expected to be in the range of \$28 million and \$30 million, of which \$27.5 million was incurred during the first six months of 2005. We also took delivery of our first two double-hulled newbuild tank barges, the *Energy 13501* and *Energy 11103*, in March and July 2005, respectively. The cash utilized for investing activities during the 2005 period was partially offset by approximately \$2.0 million of cash inflows from the sale of the *Energy 9801*, a retired single-hulled tank barge, and the *Yabucoa Service*, a 3,000 horsepower tug. The 2004 second quarter reflects the acquisition of two tugs that were retrofitted and renamed the *Freedom Service* and *Liberty Service* and one fast supply vessel, the *HOS Hotshot*. For the remainder of 2005, investing activities are anticipated to include costs to complete construction of our three remaining double-hulled tank barges, the recently announced acquisition and retrofit of two additional higher horsepower tugs, the conversion of two MPSVs, the acquisition, retrofit or conversion of additional vessels, proceeds from the sale of a single-hulled tank barge and one tug, and

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other capital expenditures, including discretionary vessel modifications and corporate projects.

Upon completion of the current tank barge newbuild program, the five new double-hulled tank barges will replace the three single-hulled vessels that were retired from service pursuant to OPA 90 and increase the barrel-carrying capacity of our fleet by approximately 600,000 barrels for a net increase of 28% over our fleet size as of December 31, 2004. See Contractual Obligations for a brief overview of anticipated vessel construction commitments in 2005.

In May 2005, we announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370 class MPSVs. The total project cost to acquire and convert the two vessels is expected to cost approximately \$65 million in the aggregate. While we are not yet contractually committed to a shipyard for the conversion costs associated with this conversion program, approximately 40% of the total project cost is expected to be incurred by the end of 2005, with the remaining 60% expected to be incurred during 2006 and early 2007. We plan to fund the project from current cash on-hand, projected cash flow from operations and a portion of the net proceeds from this offering and the concurrent private placement of senior notes. We anticipate delivery of the converted vessels at the beginning of 2007. The *Energy Service 9001*, which we acquired in 2001, and the *Benno Schmidt*, which is the sister vessel to the *Energy Service 9001* acquired on May 12, 2005, are the two coastwise tankers that will undergo retrofitting under the MPSV conversion program.

In August 2005, we announced the planned purchase and retrofit of two additional 6,000 horsepower tugs for an aggregate cost of approximately \$16.0 million. These tugs are expected to be placed in service during the fourth quarter of 2005 to service the three newbuild tank barges expected to be delivered at that time.

In September 2005, we announced new vessel construction programs for each of our two business segments. This will be our fourth OSV newbuild program and second tug and tank barge newbuild program. We are currently seeking bids from domestic shipyards for the two programs. Based on internal estimates, the incremental cost of these two programs is expected to be approximately \$265 million in the aggregate. The precise number of vessels to be constructed and their specifications will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. Construction costs related to these two programs will be funded, in part, with a portion of the proceeds from this common stock offering and the concurrent note offering and projected cash flow from operations. We plan to build an additional 20,000 deadweight tons of new generation OSV vessel capacity with an estimated incremental cost of approximately \$170 million. All of the new OSVs to be constructed under this latest OSV newbuild program are expected to be delivered by mid-2008, with the first vessel due in mid-2007. We also plan to build an additional 400,000 barrels of double-hulled tank barge barrel-carrying capacity and, unlike our first tank barge newbuild program, we plan to construct the related ocean-going tugs to be used as power units for the new barges. The estimated incremental cost of the new ocean-going tugs and ocean-going tank barges will be approximately \$95 million. All of the new vessels to be constructed under the second tug and tank barge newbuild program are expected to be delivered during 2007.

Financing Activities. Financing activities during 2004 generated \$81.4 million and consisted of cash inflows generated by the November 2004 issuance of 6.125% senior notes

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and the initial public offering of our common stock, which was completed in March 2004. These cash inflows were offset by the repurchase of 91% of our outstanding 10.625% senior notes and the repayment of amounts then outstanding on our revolving credit facility in March 2004. Financing activities during 2003 consisted primarily of the private placement of approximately 1.9 million shares of our common stock, raising net cash proceeds of approximately \$23.3 million that were used in part, together with borrowings under our revolving credit facility of \$40 million, to fund certain vessel purchases. In 2002, financing activities consisted primarily of the incurrence of variable rate debt financing under our revolving credit facility for asset purchases.

On November 3, 2004, we commenced a tender offer and solicitation of consents relating to the repurchase of our existing 10.625% senior notes. The tender offer expired on December 3, 2004. On November 23, 2004, we completed the private placement of our 6.125% Series A senior notes, resulting in offering proceeds of approximately \$219 million, net of estimated transaction costs. In connection with the tender offer and related consent solicitation, we used \$181 million, plus accrued interest, of such proceeds to repurchase approximately 91% of our outstanding \$175 million aggregate principal amount of 10.625% senior notes. In addition, approximately \$17 million, plus accrued interest, of the offering proceeds was used to redeem the remaining 10.625% senior notes on January 14, 2005.

As a result of the repurchase of 91% of the 10.625% senior notes, in the fourth quarter of 2004 we recorded a charge for a pre-tax loss on early extinguishment of debt of approximately \$22.4 million. The per share impact of this loss is \$0.75 per diluted share for the year ended December 31, 2004 and \$0.70 per diluted share for the fourth quarter 2004. Net cash used by financing activities was \$0.9 million for the six months ended June 30, 2005, which is primarily the result of the redemption of the \$15.5 million non-tendered 10.625% senior notes in January 2005 and the borrowing of \$16.0 million under the revolving credit facility during 2005.

The issuance of 6.125% senior notes in the principal amount of \$225 million and the repurchase and redemption of the then outstanding 10.625% senior notes resulted in pre-tax savings, before allocation of construction period interest, of approximately \$5.2 million in annualized net interest expense, even though our long-term debt increased by \$50 million. The November 2004 bond refinancing lowered the effective interest rate on our long-term fixed rate debt obligations from 11.18% to 6.38%.

For the six months ended June 30, 2004, net cash provided by financing activities was \$33.2 million, which primarily resulted from our initial public offering of common stock that was completed on March 31, 2004, net of the repayment of our then outstanding borrowings under our revolving credit facility. For the remainder of 2005, we expect to generate cash from operations, borrowings under our revolving credit facility and proceeds of this common stock offering and the concurrent note offering.

Concurrently with this offering of common stock, we are offering \$75 million of our 6.125% senior notes at 99.25% of principal amount in a private placement. We will receive approximately \$73.1 million in connection with the concurrent note offering and \$205.4 million in connection with this common stock offering, or \$246.4 million if the underwriters' option to purchase additional shares of common stock is exercised. See Use of Proceeds .

Table of Contents**Contractual Obligations**

The following table sets forth our aggregate contractual obligations as of December 31, 2004 (in thousands).

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	Thereafter
Senior notes(1)	\$ 240,449	\$ 15,449	\$	\$	\$ 225,000
Operating leases(2)	2,130	1,074	797	259	
Vessel construction commitments(3)	53,224	53,224			
Interest payments on senior notes	137,813	13,781	41,344	41,344	41,344
Total	\$ 433,616	\$ 83,528	\$ 42,141	\$ 41,603	\$ 266,344

- (1) The current portion of the outstanding senior notes represents the remaining balance of our 10.625% senior notes that were not repurchased in November 2004 and includes original issue discount of \$97. The current portion of debt was redeemed in January 2005. The long-term portion of the senior notes represents the outstanding balance of our 6.125% senior notes.
- (2) Included in operating leases are commitments for office space, vessel rentals, office equipment, and vehicles. On June 30, 2003, we entered into a lease for our principal executive offices in Covington, Louisiana. The lease covers 23,756 sq. ft. and has an initial term of five years, which commenced September 1, 2003, with two optional five-year renewal periods. The cost of leasing this new facility is included in the table.
- (3) The timing of the incurrence of these costs is subject to change among periods based on the achievement of shipyard milestones; however, the amounts are not expected to change materially in the aggregate.

We have a \$100 million revolving credit facility with a current borrowing base of \$60 million. As of December 31, 2004, we had no outstanding balance thereunder, as we used a portion of the net proceeds from our March 2004 initial public offering of our common stock to re-pay all borrowings thereunder. As of June 30, 2005, we had an outstanding balance of \$16.0 million and \$44.0 million of borrowing capacity immediately available under the facility. As of June 30, 2005, the weighted average interest rate under such facility was 5.63%.

As of June 30, 2005, we had outstanding debt of \$225.0 million under our 6.125% senior unsecured notes, or senior notes. The effective interest rate on the senior notes is 6.38%. Semi-annual cash interest payments of \$6.9 million are payable each June 1 and December 1. The senior notes do not require any payments of principal prior to their stated maturity on December 1, 2014, but pursuant to the indenture under which the senior notes are issued, we would be required to make offers to purchase the senior notes upon the occurrence of specified events, such as certain asset sales or a change in control.

Upon completion of our common stock offering and the concurrent note offering, we plan to negotiate a new revolving credit facility with our current bank group, and possibly new lenders. Our goal will be to provide for, among others things, a longer maturity, increased borrowing capacity, lower interest rates and an updated covenant package commensurate with our improved credit standing.

For additional information with respect to our revolving credit facility and our senior notes, please refer to Note 6 of our consolidated financial statements included herein.

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For the year ended December 31, 2004, we expended \$41.8 million for acquisitions and new vessel construction, before allocation of construction period interest, which was comprised of a final construction draw of \$1.5 million for an OSV and \$40.3 million for our tank barge newbuild program and the acquisition and retrofit of two ocean-going tugs.

As of June 30, 2005, we were committed under vessel construction contracts with two shipyards for a total of four double-hulled tank barges one 135,000-barrel barge and three

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110,000-barrel barges. Under our current newbuild program, the *Energy 13501*, the first of two 135,000-barrel double-hulled tank barges, was placed in service on March 11, 2005 and the *Energy 11103*, the first of three 110,000-barrel barges to be built, was placed in service on July 10, 2005. For the three and six months ended June 30, 2005, we incurred \$13.5 million and \$34.5 million, respectively, for our tank barge newbuild program and the acquisition and retrofit of two ocean-going tugs. The construction of five barges under our newbuild program, along with the purchase and retrofit of two higher horsepower, ocean-going tugs are expected to cost approximately \$105 million in the aggregate, of which approximately \$86.0 million had been incurred and paid from October 2003 through June 2005. We expect to incur the remaining balance of \$19.0 million as follows: \$13.1 million in the third quarter of 2005 and \$5.9 million in the fourth quarter of 2005. The timing of the incurrence of these costs is subject to change among periods based on the achievement of shipyard milestones. However, the amounts are not expected to change materially in the aggregate.

We expect to drydock a total of eight supply vessels, two tugs, and four tank barges for recertification and/or discretionary vessel enhancements during calendar 2005, at an estimated aggregate cost of approximately \$13 to \$14 million, which includes approximately \$5.0 to \$5.5 million for deferred drydocking charges. During the six months ended June 30, 2005, we expended approximately \$6.0 million for our vessel capital maintenance program, of which \$3.7 million was accounted for as deferred drydocking charges and \$2.3 million for other vessel capital improvements. During the six months ended June 30, 2005, we also expended approximately \$1.6 million for miscellaneous non-vessel related additions to property, plant and equipment and information technology initiatives.

Inflation

To date, general inflationary trends have not had a material effect on our operating revenues or expenses.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). SFAS 123R supersedes Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income (loss) and earnings (loss)

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per share in Note 8 to our consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized for such excess tax deductions was \$0.4 million in 2004 and \$0.3 million for the six months ended June 30, 2005. On April 14, 2005, the Commission announced amended compliance dates for SFAS 123R. The Commission previously required companies to adopt this standard no later than July 1, 2005, but the new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, that begins after June 15, 2005. We will not be required to comply with SFAS 123R until the quarter ended March 31, 2006 and we do not currently intend to adopt this standard prior to such time.

Quantitative and Qualitative Disclosures About Market Risk

We have not entered into any derivative financial instrument transactions to manage or reduce market risk or for speculative purposes.

Changes in interest rates may result in changes in the fair market value of our financial instruments, interest income and interest expense. Our financial instruments that are exposed to interest rate risk are cash equivalents and long-term borrowings. Due to the short duration and conservative nature of our cash equivalent investment portfolio, we do not expect any material loss with respect to our investments. The book value for cash equivalents is considered to be representative of its fair value.

We are subject to interest rate risk on our long-term fixed interest rate senior notes. In general, the fair market value of debt with a fixed interest rate will increase as interest rates fall. Conversely, the fair market value of debt will decrease as interest rates rise. The currently outstanding senior notes accrue interest at the rate of 6.125% per annum and mature on December 1, 2014. There are no scheduled principal payments under the senior notes prior to the maturity date.

Our revolving credit facility has a variable interest rate and, therefore, is not subject to interest rate risk. At December 31, 2004, the weighted average interest rate under our revolving credit facility, had we had outstanding borrowings under such facility, would have been approximately 4.5%. Assuming a 200 basis point increase in market interest rates during the year ended December 31, 2004, our interest expense, net of capitalization, would have increased approximately \$0.2 million, net of taxes, resulting in a \$0.01 per diluted share reduction in earnings.

Our operations are primarily conducted between U.S. ports, including along the coast of Puerto Rico, and historically we have not been exposed to foreign currency fluctuation. However, as we expand our operations to international markets, we may become exposed to certain risks typically associated with foreign currency fluctuation. We currently have time charters for eight of our OSVs for service offshore Trinidad. Although such contracts are denominated and will be paid in U.S. Dollars, value added tax, or VAT, payments are paid in

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Trinidad dollars which creates an exchange risk related to currency fluctuations. In addition, we are currently operating under a fixed time charter with our fast supply vessel for service offshore Mexico. Although we are paid in U.S. Dollars, there is an exchange risk to foreign currency fluctuations related to the payment terms of such time charters. To date, we have not hedged against any foreign currency rate fluctuations associated with foreign currency VAT payments or other foreign currency denominated transactions arising in the normal course of business. We continually monitor the currency exchange risks associated with conducting international operations. As of June 30, 2005, there were no material changes in our market or interest rate risk or material gains or losses associated with such fluctuations since last reported on our Annual Report on Form 10-K for the period ended December 31, 2004.

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BUSINESS

General

We are a leading provider of technologically advanced, new generation OSVs serving the offshore oil and gas industry, primarily in the U.S. Gulf of Mexico, Trinidad and in select international markets. The focus of our OSV business is on complex exploration and production activities, which include deepwater, deep well and other logistically demanding projects. Such other projects include, among others, the construction, maintenance and repair of offshore infrastructure. We are also a leading transporter of petroleum products through our tug and tank barge segment serving the energy industry, primarily in the northeastern United States and Puerto Rico.

In the mid-1990s, oil and gas producers began seeking large hydrocarbon reserves at deeper well depths using new, specialized drilling and production equipment. We recognized that the existing fleet of conventional 180 OSVs operating in the U.S. Gulf of Mexico was not designed to support these more complex projects or to operate in the challenging environments in which they were conducted. Therefore, in 1997, we began a program to construct new generation OSVs based upon our proprietary designs. Since that time, we have constructed 17 new generation OSVs using these proprietary designs, and expanded our fleet with the acquisitions of a total of six additional new generation OSVs, one fast supply vessel, two AHTS vessels, and two coastwise sulfur tankers currently undergoing conversions into MPSVs. In addition, we recently announced our fourth OSV newbuild program that is expected to add, in the aggregate, approximately 20,000 deadweight tons of additional OSV capacity to our OSV fleet. Our OSV fleet is among the youngest in the industry with an average age of approximately five years. We are the only publicly traded company with a significant fleet of U.S.-flagged, new generation OSVs.

Our OSVs were purposefully designed with the flexibility to meet the diverse needs of our clients in all stages of their exploration and production activities. As a result, all of our OSVs have enhanced capabilities that allow them to more effectively support premium drilling equipment required for deep drilling and related specialty services. In contrast to conventional 180 OSVs, our vessels have dynamic positioning capability, as well as greater storage and off-loading capacity. We are capable of providing OSV services to our customers anywhere in the world and we are actively pursuing additional contracts in select international markets.

Historically, demand for our OSV services has been primarily driven by the drilling of deep wells, whether in the deepwater or on the U.S. Continental Shelf, and other complex exploration and production projects that require specialized drilling and production equipment. In addition, our new generation OSVs are increasingly in demand by our customers for conventional drilling projects because of the ability of our OSVs to reduce overall offshore logistics costs for the customer through the vessels' greater capacities and operating efficiencies.

According to the Minerals Management Service, or MMS, in 2004 the deepwater region accounted for 64% of total U.S. Gulf of Mexico oil production and 35% of total U.S. Gulf of Mexico natural gas production, up substantially from 4% and 1%, respectively, in 1990. In addition, the MMS estimates that deep reservoirs on the Continental Shelf may hold up to 55 tcf of undiscovered natural gas. This potential reserve base compares favorably to the current total of approximately 26 tcf of proven natural gas reserves in the entire U.S. Gulf of Mexico.

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Our new generation OSVs are also well suited for drilling in logistically demanding projects and frontier areas, where support infrastructure is severely limited.

Our tug and tank barge fleet consists of 14 ocean-going tugs and 15 active ocean-going tank barges. During 2005, we expect to deliver five double-hulled tank barges under our current newbuild program, two of which were delivered on March 11 and July 10, 2005, respectively. The three remaining vessels in this newbuild program are expected to be delivered during the fourth quarter of 2005. These vessels will add new barrel-carrying capacity and replace barrel-carrying capacity lost when we retired three of our single-hulled tank barges from service at the end of 2004 as mandated by OPA 90. In addition, we recently announced a second tug and tank barge newbuild program that is expected to add, in the aggregate, approximately 400,000 barrels of double-hulled capacity to the tug and tank barge fleet and related tugs. We believe our tug and tank barge business complements our OSV business by providing additional revenue and geographic diversification, while allowing us to offer another line of services to integrated oil and gas companies. Demand for our tug and tank barge services is primarily driven by the level of refined petroleum product consumption in the northeastern United States and Puerto Rico, our core operating markets. The Energy Information Administration, or EIA, projects that refined petroleum product consumption in the East Coast region of the United States will increase by an average of 1.7% per year from 2002 to 2010. Demand for refined petroleum products is primarily driven by population growth, the strength of the U.S. economy, seasonal weather patterns, oil prices and competition from alternate energy sources.

Offshore Supply Vessels

The OSV Industry

OSVs primarily serve exploratory and developmental drilling rigs and production facilities and support offshore construction and subsea maintenance activities. OSVs differ from other types of marine vessels in their cargo carrying flexibility and capacity. In addition to transporting deck cargo, such as pipe or drummed material and equipment, OSVs also transport liquid mud, potable and drilling water, diesel fuel, dry bulk cement and personnel between shore bases and offshore rigs and facilities. In general, demand for OSVs, as evidenced by dayrates and utilization rates, is primarily related to offshore oil and natural gas exploration, development and production activity, which in turn is influenced by a number of factors, including oil and natural gas prices and the drilling budgets of offshore exploration and production companies.

OSVs operate worldwide, but are generally concentrated in relatively few offshore regions with high levels of exploration and development activity such as the Gulf of Mexico, the North Sea, Southeast Asia, West Africa, Latin America and the Middle East. While there is some vessel migration between regions, key factors such as mobilization costs, vessel suitability and government statutes prohibiting foreign-flagged vessels from operating in certain waters generally limit such migration.

According to the MMS, the U.S. Gulf of Mexico is a critical oil and natural gas supply basin for the United States, and it predicts that new incentives offered to energy companies to explore and develop hard-to-reach areas of the U.S. Gulf of Mexico may boost peak oil and natural gas production by 43% and 13%, respectively, over the next decade. Offshore oil and

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natural gas drilling and production in the U.S. Gulf of Mexico occurs on the Continental Shelf and in the deepwater. Drilling activity on the Continental Shelf has historically been limited to shallow wells, or wells with true vertical depths of less than 15,000 . However, with the advent of improved technology and higher oil and gas prices, operators have begun to increasingly focus exploratory efforts on deep wells and natural gas reserves located below 15,000 . These deep prospects are largely undeveloped, but are believed to contain significant reserves.

While the shallow waters of the Continental Shelf have been actively explored for decades, relatively few deep wells have been drilled historically due to the high cost associated with these wells. The dry hole cost of a typical Continental Shelf well drilled from 8,000 to 12,000 generally ranges from \$4 million to \$8 million, while the dry hole cost for a deep well drilled in a similar location but to 15,000 or more can range from \$10 million to \$75 million. The higher costs associated with the drilling of deep wells can be attributed to, among other things, the need for specialized, high-end drilling rigs and related equipment, greater volumes of downhole materials such as liquid mud, tubular products and cement, and longer drilling times.

Despite the higher costs associated with deep well Continental Shelf drilling, operators, especially those in search of natural gas, have continued to demonstrate interest. This interest is driven by, among other things, the potential for the discovery of significant natural gas reserves. The MMS estimates that there may be up to 55 tcf of undiscovered, conventionally recoverable, deep well natural gas on the Continental Shelf. Moreover, the abundance of existing platforms, production facilities and pipelines on the Continental Shelf allow new deep gas to flow quickly to market. In addition, MMS data indicates that higher natural gas production rates can be expected from wells drilled on the Continental Shelf below 16,000 . Furthermore, the MMS royalty relief programs enacted in 2001, and expanded in August 2003 and again in January 2004, have stimulated interest by reducing the development costs of these deep wells. The combination of these factors partly compensates for the higher drilling costs of deep wells on the Continental Shelf and can allow operators to commercially produce discovered reserves in this market. While overall drilling on the Continental Shelf has declined from 2001 levels, gas production data from 2000 to 2003 provided by IHS Energy, an energy research company, suggests an increasing focus on deep wells in shallow waters. From 2000 to 2003, gas production from deep wells as a percentage of total wells on the Continental Shelf increased from 22% to 30%.

Recent discoveries of large hydrocarbon reserves in deepwater fields in the Gulf of Mexico and at deeper well depths on the Continental Shelf have resulted in increased developmental and exploratory drilling activities in these areas. The deepwater region of the U.S. Gulf of Mexico is an increasingly important source of oil and natural gas production with many unexplored areas of potential oil and natural gas reserves. According to the 2004 Deepwater and Ultra Deepwater Report of Infield Systems Limited, an international energy research firm, the U.S. Gulf of Mexico had 58 deepwater projects developed between 1999 and 2003, and an additional 79 deepwater projects have been identified for development between 2004 and 2008.

Because oil and natural gas exploration, development and production costs in the shallow well Continental Shelf market are generally lower than those in the deepwater or deep well environments, shallow well drilling activity on the Continental Shelf is typically more

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sensitive to fluctuations in commodity prices, particularly the price of natural gas. Accordingly, actual or anticipated decreases in oil and natural gas prices generally result in reduced offshore drilling activity and correspondingly lower demand for the conventional 180 OSVs serving the shallow well Continental Shelf market. This causes a corresponding decline in OSV dayrates and utilization rates in that market. In contrast, the relatively larger capital commitments and longer lead times and investment horizons associated with deepwater, particularly ultra-deepwater, and deep well developments make it less likely that an operator will abandon such projects in response to a short-term decline in oil or natural gas prices. Dayrates and utilization rates for new generation OSVs that serve the deepwater and deep well markets are, therefore, generally less sensitive to short-term commodity price fluctuations and tend to be more stable than dayrates and utilization rates for OSVs serving the shallow well Continental Shelf market.

According to our analysis of the industry and data compiled from various industry sources, including the U.S. Coast Guard, we estimate that the U.S.-flagged OSV fleet currently totals 414 vessels, substantially all of which are located in the Gulf of Mexico. Of this total, 249, or 60% are conventional 180 OSVs that primarily operate on the Continental Shelf. The remaining 165 vessels are U.S. flagged, new generation OSVs, with 127 currently operating in the U.S. Gulf of Mexico. However, during soft markets conditions in the deepwater, these modern vessels have increasingly migrated at premium dayrates to conventional drilling environments, such as the U.S. Continental Shelf, Mexico and Trinidad. Of the conventional OSV fleet, a significant number are currently cold-stacked. Vessels that are cold-stacked have generally been removed from active service by the operator due to lack of demand. In contrast, we believe there are currently no new generation OSVs cold-stacked.

The Market for New Generation OSVs

Complex exploration and production projects require specialized equipment and higher volumes of supplies to meet the more difficult operating environment associated with such offshore developments. In order to better serve these projects and meet customer demands, new generation OSVs, including our entire OSV fleet, are designed with larger capacities, including greater liquid mud and dry bulk cement capacities, as well as larger areas of open deck space than conventional 180 OSVs. These features are essential to the effective servicing of deepwater drilling projects, which are often distant from shore-based support infrastructure, because they allow a vessel to make fewer trips to supply the liquid mud, drilling water, dry bulk cement and other needs of the customer. In addition, OSVs operating in deepwater environments generally require dynamic positioning, or anchorless station-keeping capability, primarily because customers' safety procedures preclude OSVs from tying up to deepwater installations, and to enable continued operation in adverse weather conditions. We believe that conventional 180 OSVs, substantially all of which lack dynamic positioning capability and sufficient on-deck or below-deck cargo capacity, are not capable of operating effectively or economically in the deepwater market. In addition, certain ports have draft or other logistical impediments, which limit the pool of new generation vessels capable of servicing such ports. Our proprietary vessels were designed to work under these shallow draft and logistically demanding conditions.

As a result of recent deepwater and deep well drilling activity, utilization rates for new generation OSVs in the U.S. Gulf of Mexico have averaged approximately 86% over the last

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two years while the average utilization rate for the conventional 180 OSV fleet over the same period has been approximately 72%, not taking into account cold-stacked conventional 180 OSVs. Taking such cold-stacked vessels into account, we believe that the average utilization rate for U.S. flagged conventional 180 OSVs is less than 50%. Additional utilization for new generation OSVs has come from increasing demand for these vessels in support of conventional shelf drilling projects. Moreover, during the same two-year period, average dayrates for new generation OSVs were generally more than double the average dayrates of conventional 180 OSVs. We believe that demand is beginning to outpace the supply of new generation OSVs in the U.S. Gulf of Mexico. We base our belief on the recent and expected drilling activity in all sectors of the U.S. Gulf of Mexico and the departure of certain new generation OSVs to foreign markets, after taking into account vessels currently available and vessels being constructed under announced construction plans. Furthermore, although U.S.-flagged vessels operating in overseas locations may be remobilized to the U.S. Gulf of Mexico, historically such re-mobilization has been limited. In addition to the traditional energy-related market for our OSVs, we have experienced increased demand for specialized non-energy-related uses, which may afford us the opportunity to diversify the market for our vessels.

Our OSV Business

We currently own and operate a fleet of 25 new generation OSVs, which includes two AHTS vessels that are primarily operating as supply vessels and for towing jack-up rigs. We also own two coastwise sulfur tankers that are currently undergoing conversion into MPSVs, and we own and operate one fast supply vessel. We engineered and supervised the construction of 17 of our OSVs expressly to meet the demands of deepwater regions and other complex drilling projects, based on our proprietary designs. Drawing from the vessel operating experience of our in-house engineers, we work closely with potential charterers to design vessels specifically to meet their anticipated needs. This is particularly the case when the charterer will operate a project that could have a duration of more than 20 years and require expenditures exceeding \$1 billion. Our 17 proprietary OSVs have up to three times the dry bulk capacity and deck space, two to ten times the liquid mud capacity and two to four times the deck tonnage compared to conventional 180 OSVs. The advanced cargo handling systems of our proprietary OSVs allow for dry bulk and liquid cargos to be loaded and unloaded three times faster than conventional 180 OSVs, while the solid state controls of their engines typically result in a 20% greater fuel efficiency than vessels powered by conventional engines. In addition, our larger classes of proprietary OSV designs, designated by us as our 240 ED and 265 classes, were designed, in part, to supply the substantially greater liquid mud volume and other cargo capacity required for ultra-deepwater drilling. We believe that our customers' recognition of the superior capabilities of our proprietary OSVs has contributed to our ability to achieve higher dayrates and utilization rates and increased overall operating cost efficiencies than our competitors.

All of our new generation OSVs are equipped with dynamic positioning systems and controllable pitch thrusters, which allow our vessels to maintain position with minimal variance, and state-of-the-art safety, emergency power, fire alarm and fire suppression systems and systems monitoring equipment. The unique hull design and integrated rudder and thruster system of our 17 proprietary OSVs provide for a more maneuverable vessel. These proprietary vessels also have double-bottomed and double-sided hulls that minimize

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environmental impact in the event of vessel collisions or groundings, solid state controls that minimize visible soot and polluting gases and zero discharge sewage and waste systems that minimize the impact on marine environments. In addition, these 17 vessels are either fully SOLAS (Safety of Life at Sea) certified or SOLAS ready. SOLAS is the international convention that regulates the technical characteristics of vessels for purposes of ensuring international standards of safety for vessels engaged in commerce between international ports. These features allow us to market our proprietary OSVs for service in international waters.

Our technologically advanced, new generation OSVs are also capable of providing specialty services in support of certain of our customers, including well stimulation, remotely operated vehicles, or ROVs, used in oilfield subsea construction and maintenance, underwater inspections, marine seismic operations, and certain non-energy applications such as fiber optics cable installation, military work and containerized cargo transportation. Compared to conventional 180 OSVs, our OSVs have more dead weight capacity, deck space, and berthing accommodations, improved maneuverability and greater fuel efficiency. We believe these characteristics strengthen demand for our OSVs in specialty situations. Two of our vessels, the *HOS Innovator* and the *HOS Dominator*, currently provide ROV subsea construction and maintenance support for a large oilfield service company. The *BJ Blue Ray* provides deepwater well stimulation support services for another large oilfield service company. This vessel was the first U.S.-flagged well stimulation vessel to receive the American Bureau of Shipping WS and DPS2 class notations. We believe the *BJ Blue Ray* is one of the most technologically sophisticated well stimulation vessels in the world.

On June 26, 2003, we acquired five 220 new generation OSVs from Candy Marine Investment Corporation, an affiliate of Candy Fleet Corporation, or Candy Fleet. Following the completion in July 2003 of a private placement of our common stock and satisfaction of certain other conditions, on August 6, 2003 we acquired an additional 220 new generation OSV from Candy Fleet. These six vessels complement our existing OSV fleet and have allowed us to expand our service offerings to clients, particularly those drilling wells on the Continental Shelf.

In January 2005, we acquired a new generation AHTS vessel from a private owner. This vessel, renamed the *HOS Saylor*, was our first foreign-flagged vessel. Upon acquisition, we immediately deployed the *HOS Saylor* on a time charter with one of our OSV customers in Trinidad. In March 2005, we acquired the *HOS Navegante*, the sister vessel to the *HOS Saylor*, from an affiliate of the private owner from which the *HOS Saylor* was acquired. The *HOS Navegante*, which is also foreign-flagged, was placed in service in June 2005. These strategic vessel acquisitions complement our growing market presence in international waters. While these vessels have anchor-handling capabilities and may be used for that purpose, we currently are using them primarily as supply vessels and for towing jack-up rigs.

We purchased the *Energy Service 9001*, formerly known as the *M/V W.K. McWilliams, Jr.*, from Freeport-McMoRan Sulphur in November 2001. In the second quarter of 2005, we acquired a coastwise sulfur tanker, the *M/V Benno C. Schmidt*. We are converting these two vessels into 370 class MPSVs. The total project cost to acquire and convert the two vessels is expected to be \$65 million in the aggregate. We anticipate delivery of the converted vessels by the first quarter of 2007. We believe that the MPSVs will be the largest OSVs in the world, each with cargo carrying capacities of over 10,000 deadweight tons and a minimum of 30,000

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barrels of liquid mud. Each MPSV will have nearly three times the deadweight and liquid mud capacity of one of our 265 class new generation OSVs and more than eight times the liquid mud capacity of one of our 200 class new generation OSVs. The MPSVs represent the culmination of a three-year effort by our in-house engineering team to design a multi-purpose supply vessel. The resulting plan to convert the *Energy Service 9001* and the *Benno Schmidt* is based on recent customer feedback and expressed demand for a larger, more versatile, DP-2 vessel capable of meeting the evolving needs of the exploration, development and production life-cycle of an ultra-deepwater field. The hulls of these sister vessels, which were purpose-built for the specific gravity of molten sulfur as a cargo, make them uniquely suited to be converted into large liquid mud carriers. This is especially important given the ever-increasing volumes of liquid mud necessary to spud a deep well today, with some projects requiring as many as 100,000 barrels of drilling fluid per spud.

We expect to convert these vessels into MPSVs for roughly the same cost that we would have to pay to construct a UT-745 or 280 class OSV, which are the largest OSVs that are currently in service. Unlike those vessels, however, the MPSVs will offer our customers multiple capabilities that we believe are well beyond those of any OSV offered or under construction today. With these MPSVs, we have designed a single vessel that can perform a variety of specialty services for which customers must currently use several different types of vessels. In addition to traditional offshore supply vessel capabilities, these MPSVs can support offshore construction, subsea well intervention, ROV operations, pipeline commissioning, pipe-hauling and flotel services, to name a few. We estimate that the cost to construct two comparable newbuild vessels, with the same capacities and all of the capabilities of these MPSVs, would be over \$120 million, or about twice our expected level of investment.

In September 2005, we announced our fourth OSV newbuild program. We are currently seeking bids from domestic shipyards for this new program. We plan to build an additional 20,000 deadweight tons of new generation OSV vessel capacity with an estimated incremental cost of approximately \$170 million in the aggregate. The precise number of vessels to be constructed and their specifications will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. Construction costs related to this program will be funded, in part, with a portion of the proceeds from our public common stock offering and the concurrent private note offering and projected cash flow from operations. All of the new OSVs to be constructed under this latest OSV newbuild program are expected to be delivered by mid-2008, with the first vessel due in mid-2007.

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The following table provides information, as of September 15, 2005, regarding our fleet of vessels that serve our OSV customers.

Offshore Supply Vessels

Name	Class	Current Service Function	Built (Acquired)	Deadweight (long tons)	Brake Horsepower
<i>Offshore Supply Vessels:</i>					
BJ Blue Ray	265	Well Stimulation	Nov 2001	3,756	6,700
HOS Brimstone	265	Supply	Jun 2002	3,756	6,700
HOS Stormridge	265	Supply	Aug 2002	3,756	6,700
HOS Sandstorm	265	Supply	Oct 2002	3,756	6,700
HOS Bluewater	240 ED	Supply	Mar 2003	2,850	4,000
HOS Gemstone	240 ED	Supply	Jun 2003	2,850	4,000
HOS Greystone	240 ED	Supply	Sep 2003	2,850	4,000
HOS Silverstar	240 ED	Supply	Jan 2004	2,850	4,000
HOS Innovator	240 E	ROV Support(1)	Apr 2001	2,380	4,500
HOS Dominator	240 E	ROV Support(1)	Feb 2002	2,380	4,500
HOS Deepwater	240	Supply	Nov 1999	2,250	4,500
HOS Cornerstone	240	Supply	Mar 2000	2,250	4,500
HOS Explorer	220	Supply	Feb 1999 (Jun 2003)	1,607	3,900
HOS Express	220	Supply	Sep 1998 (Jun 2003)	1,607	3,900
HOS Pioneer	220	Supply	Jun 2000 (Jun 2003)	1,607	4,200
HOS Trader	220	Supply	Nov 1997 (Jun 2003)	1,607	3,900
HOS Voyager	220	Supply	May 1998 (Jun 2003)	1,607	3,900
HOS Mariner	220	Supply	Sep 1999 (Aug 2003)	1,607	3,900
HOS Crossfire	200	Supply	Nov 1998	1,750	4,000
HOS Super H	200	Supply	Jan 1999	1,750	4,000
HOS Brigadoon	200	Supply	Mar 1999	1,750	4,000
HOS Thunderfoot	200	Supply	May 1999	1,750	4,000
HOS Dakota	200	Supply	Jun 1999	1,750	4,000
<i>Multi-Purpose Supply Vessels:</i>					
Energy Service 9001	370	Multi-Purpose	1Q 2007 (est.)(2)	10,300 (est.)	TBD
M/V Benno C. Schmidt	370	Multi-Purpose	1Q 2007 (est.)(2)	10,300 (est.)	TBD
<i>Anchor-Handling Towing Supply Vessels:</i>					
HOS Saylor(3)	240	Towing/Supply	Nov 1999 (Jan 2005)	3,322	8,000
HOS Navegante(3)	240	Towing/Supply	Jan 2000 (Mar 2005)	3,322	7,845
<i>Fast Supply Vessel:</i>					
HOS Hotshot	165	Fast Supply	Apr 2003 (May 2004)	260	6,200

TBD: To be determined.

(1) The term ROV means remotely operated vehicle.

(2) These two coastwise tankers are currently being converted into MPSVs and will be renamed prior to their in-service dates.

(3) We acquired the *HOS Saylor* and the *HOS Navegante*, each a foreign-flagged vessel, in the first quarter of 2005. We are currently using the *HOS Saylor* and *HOS Navegante* primarily for their OSV capabilities and for towing jack-up rigs.

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We have designed and constructed five distinct classes of proprietary OSVs and added a sixth class, through the acquisitions of six OSVs from Candy Fleet, to meet the diverse needs of the offshore oil and gas industry. The following table provides a comparison of certain specifications and capabilities of our new generation OSVs to conventional 180 OSVs.

	Our Proprietary Design OSV Classes						Acquired OSVs
	Conventional 180 OSV(1)	200	240	240 E	240 ED	265	220(2)
Size							
Class length overall (ft.)	180	200	240	240	240	265	220
Breadth (ft.)	40	54	54	54	54	60	46
Depth (ft.)	14	18	18	18	20	22	17
Maximum draft (ft.)	12	13	13	13	14.5	16	13.7
Deadweight (tons)	950	1,750	2,250	2,380	2,850	3,756	1,607
Clear deck area (sq. ft.)	3,450	6,580	8,836	8,100	8,100	9,212	5,472
Capacity							
Fuel capacity (gallons)	79,400	90,000	151,800	135,100	104,210	151,800	114,490
Fuel pumping rate (gal. per minute)	275	550	550	550	550	500	380
Drill water capacity (gal.)	120,000	240,000	240,000	240,000	311,000	413,000	99,000
Dry bulk capacity (cu. ft.)	4,000	7,000	8,400	8,400	6,000	10,800	8,040
Liquid mud capacity (barrels)	1,200	3,640	6,475	6,475	8,300	10,500	2,955
Liquid mud pumping rate (gal. per minute)	250	500	1,000	1,000	1,000	1,000	1,200
Potable water capacity (gal.)	11,500	52,200	52,200	52,200	30,400	20,430	26,800
Machinery							
Main engines (horsepower)	2,250	4,000	4,000	4,000	4,000	6,700	3,900
Auxiliaries (number)	2	3	3	3	3	3	2
Total rating (kw)	200	750	750	750	750	860	250
Bow thruster (horsepower)	325	800	1,600	1,600	1,600	2,400	530
Type of Pitch	Fixed	Controllable	Controllable	Controllable	Controllable	Controllable	Fixed
Stern thruster (horsepower)	None	300	300	800	800	1,600	300
Type of Pitch		Controllable	Controllable	Controllable	Controllable	Controllable	Fixed
Fire fighting (gallons per minute)	None	1,250	2,700	2,700	2,700	2,700	2,600
Dynamic positioning(3)	None	DP0,1	DP1	DP2	DP2	DP2,3	DP0,1
Crew Requirements							
Number of personnel(4)	5	6	6	7	7	8	6

(1) Statistics are for a typical 180 class vessel. Actual specifications and capabilities may vary from vessel to vessel.

(2) Excludes the *HOS Saylor* and the *HOS Navegante*, which are foreign-flagged AHTS vessels.

(3) Dynamic positioning permits a vessel to maintain position without the use of anchors. The numbers 0, 1, 2 and 3 refer to increasing levels of technical sophistication and system redundancy features.

(4) Regulatory manning requirements; depending on the services provided, operators may man vessels with more crew than required by regulations.

Additional information with respect to our OSV segment can be found in Note 14 of our consolidated financial statements.

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Tugs and Tank Barges

The Tug and Tank Barge Industry

Introduction. The domestic tank barge industry provides marine transportation of crude oil, petroleum products and petrochemicals by tug and tank barge, and is a critical link in the U.S. petroleum distribution chain. Petroleum products are transported in the northeastern United States through a vast network of terminals, tankers and pipelines. We believe, based upon our analysis of the industry, that in the northeastern United States approximately 430 million barrels of petroleum products are transported annually by tank barges. Additionally, the EIA estimates that in Puerto Rico, our other core area of operation, approximately 70 million barrels of petroleum products are transported annually.

Demand for tug and tank barge services in the northeastern United States is primarily driven by population growth, the strength of the U.S. economy, seasonal weather patterns, oil prices and competition from alternate energy sources. According to the EIA, demand for petroleum products in the northeastern United States is expected to increase approximately 1.7% annually through 2010, which we believe will generate steadily increasing demand for the tank barge industry.

The largest tank barge market in the northeastern United States is New York Harbor. Imported petroleum products are primarily delivered to New York Harbor as it has the capacity to receive products in cargo lots of 50,000 tons or more per tanker. By contrast, draft limitations in most New England ports and drawbridge limitations in Boston and Portland, Maine limit the average cargo carrying capacity of direct imports into many of the largest New England ports to about 30,000 tons per tanker. As a result, ships importing directly into New England must frequently discharge in multiple ports or terminals or transfer cargoes to tank barges. As existing single-hulled tankers are retired due to age or as mandated under OPA 90, they are typically replaced by larger tankers. These larger-sized tankers are being built to facilitate the importation of crude oil and petroleum products into the United States. The volume of imported crude oil and petroleum products is expected to grow at a compound annual rate of 2.4% through 2025, according to the EIA. As larger petroleum tankers are being built, we believe that direct delivery into New York Harbor will generate increased tank barge demand for lightering services and further shipment to New England, the Hudson River and Long Island.

Oil Pollution Act of 1990. OPA 90 mandates that all single-hulled tank vessels operating in U.S. waters be removed from service according to a set time schedule. Data provided by a U.S. Coast Guard report dated September 2001 indicates that 5.5 million barrels of single-hulled tank barge capacity would be retired by 2005 and an additional 3.5 million barrels by 2010, as mandated by OPA 90. According to the report, this represented on a cumulative basis as of each such retirement date, 22% and 36%, respectively, of the total 24.9 million barrel single- and double-hulled tank barge capacity that existed in 2001. The following chart illustrates the capacity of tank vessels that must be removed from service from 2000 through 2014. We believe that, absent a substantial increase in the number of double-hulled vessels constructed in the industry, this reduction in capacity, assuming steady demand, may favorably impact dayrates and utilization of the remaining tank barges, including our own.

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Based on data contained in the United States Coast Guard Report to Congress on the Progress to Replace Single Hull Tank Vessels with Double Hull Tank Vessels, dated September 2001.

Additionally, OPA 90 requires that owners or operators of tankers operating in U.S. waters submit vessel spill response plans to the U.S. Coast Guard for approval and operate according to the plans upon approval. Our vessel response plans have been approved by the U.S. Coast Guard, and all of our crew members have been trained to comply with these guidelines. For further discussion of OPA 90 see Environmental and Other Governmental Regulation below.

Our Tug and Tank Barge Business

We provide marine transportation, distribution and logistics services primarily in the northeastern United States and Puerto Rico with our fleet of 14 ocean-going tugs and 15 active ocean-going tank barges. As of September 1, 2005, we were committed under vessel construction contracts with two shipyards for a total of three double-hulled tank barges one 135,000-barrel barge and two 110,000-barrel barges. Under our current newbuild program, the *Energy 13501*, the first of two 135,000-barrel double-hulled tank barges, was placed in service on March 11, 2005 and the *Energy 11103*, the first of three 110,000-barrel barges to be built, was placed in service on July 10, 2005. This current newbuild program will add new barrel-carrying capacity and replace barrel-carrying capacity lost when we retired three of our single-hulled tank barges from service at the end of 2004, as mandated by OPA 90. We provide our services to major oil companies, refineries and oil traders. Generally, a tug and tank barge work together as a tow to transport refined or bunker grade petroleum products. Our tank barges carry petroleum products that are typically characterized as either clean or dirty. Clean products are primarily gasoline, home heating oil, diesel fuel and jet fuel. Dirty products are mainly crude oils, residual crudes and feedstocks, heavy fuel oils and asphalts.

Our tugs and tank barges serve the northeastern U.S. coast, primarily New York Harbor, by transporting both clean and dirty petroleum products to and from refineries and distribution terminals. Our tugs and tank barges also transport both clean and dirty petroleum products from refineries and distribution terminals in Puerto Rico to the Puerto Rico Electric Power Authority and to utilities located on other Caribbean islands. In addition, we provide ship lightering, bunkering and docking services in these markets and are well positioned to provide

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such services to the increasing number of new tankers that are too large to make direct deliveries to distribution terminals and refineries.

On May 31, 2001, we acquired nine ocean-going tugs and nine ocean-going tank barges from the Spentonbush/Red Star Group, composed of certain affiliates of Amerada Hess, as well as the business related to these tugs and tank barges, greatly expanding our capacity in the northeastern United States and increasing our market share of the coastwise trade on the U.S. upper east coast. As part of the acquisition, Amerada Hess entered into a long-term contract of affreightment with us pursuant to which Amerada Hess committed to use us as its exclusive marine logistics provider and transporter of liquid petroleum products by tank barge in the northeastern United States. Under this contract, Amerada Hess committed to ship a minimum of 45 million barrels annually for an initial period from June 1, 2001 through March 31, 2006, which can be extended for subsequent periods by mutual agreement. The contract of affreightment provides us with a significant source of revenues over the life of the contract. Our contract of affreightment allows Amerada Hess to reduce its minimum annual cargo volume commitment subject to significant adjustment penalties. We are currently in discussions with Amerada Hess regarding extending our contractual relationship. Because the tank barge market in the northeastern United States is currently operating at or near capacity we believe that we would be able to replace through other customers any volumes that Amerada Hess does not transport as contemplated in the contract or, if such relationship is not extended, after termination of such contract.

Three of our tank barges are double-hulled and are not subject to OPA 90 retirement dates. Ten of our 12 active single-hulled tank barges are not required under OPA 90 to be retired or double-hulled until 2015. The two other single-hulled tank barges are required to be retired from service in 2009. As required under OPA 90, we retired three single-hulled tank barges at the end of 2004. In anticipation of our OPA 90 retirements, in November 2003 we commenced our first tug and tank barge new build program to construct five double-hulled, ocean-going tank barges. Two of the five new tank barges in the first newbuild program have been delivered, and the other three are expected to be delivered in the fourth quarter of 2005. Based on the remaining lives of the majority of our tank barge fleet under OPA 90 and our recent construction programs, we believe we are well positioned to obtain additional customers in the northeastern United States, as a large portion of the then available capacity in that market was removed from service by January 1, 2005.

In September 2005, we announced our second tug and tank barge newbuild program. We are currently seeking bids from domestic shipyards for this new program. We plan to build an additional 400,000 barrels of double-hulled tank barge barrel-carrying capacity and, unlike our first tank barge newbuild program, we plan to construct the related ocean-going tugs to be used as power units for the new barges. The estimated incremental cost of the new ocean-going tugs and ocean-going tank barges will be approximately \$95 million in the aggregate. The precise number of vessels to be constructed and their specifications will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. Construction costs related to this program will be funded, in part, with a portion of the proceeds from our public common stock offering and the concurrent note offering and projected cash flow from operations. All of the new vessels to be constructed under the second tug and tank barge newbuild program are expected to be delivered during 2007.

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The following tables provide information, as of September 15, 2005, regarding the tugs and tank barges that we own, as well as the three double-hulled tank barges under construction at that date.

Ocean-Going Tugs

Name	Gross Tonnage	Length (feet)	Year Built	Brake Horsepower
Freedom Service(1)	180	126	1982	6,140
Liberty Service(1)	180	126	1982	6,140
Patriot Service(2)	198	124	1996	6,140
Eagle Service(2)	198	124	1996	6,140
Ponce Service	190	107	1970	3,900
Caribe Service	194	111	1970	3,900
Atlantic Service	198	105	1978	3,900
Brooklyn Service	198	105	1975	3,900
Gulf Service	198	126	1979	3,900
Tradewind Service	183	105	1975	3,200
Spartan Service	126	102	1978	3,000
Sea Service	173	109	1975	2,820
Bayridge Service	194	100	1981	2,000
Stapleton Service	146	78	1966	1,530

(1) These vessels have been substantially retrofitted since their purchase in June 2004 to provide power for the new double-hulled tank barges that have been delivered or are currently under construction.

(2) We purchased the *Patriot Service* and *Eagle Service* from a private owner on August 12 and September 6, 2005, respectively. The vessels are currently in a shipyard being retrofitted.

Table of Contents**Ocean-Going Tank Barges and Coastwise Tanker**

Name	Barrel Capacity	Length (feet)	Year Built	OPA 90 Date(1)
Active:				
<i>Ocean-Going Tank Barges:</i>				
Energy 13501	135,380	450	2005	DH
Energy 13502	135,000 (est.)	450	TBD(2)	DH
Energy 11101	111,844	420	1979	2009
Energy 11102	111,844	420	1979	2009
Energy 11103	112,269	390	2005	DH
Energy 11104	110,000 (est.)	390	TBD(2)	DH
Energy 11105	110,000 (est.)	390	TBD(2)	DH
Energy 8001	81,364	350	1996	DH
Energy 7002	72,693	351	1971	2015
Energy 7001	72,016	300	1977	2015
Energy 6504	66,333	305	1958	2015
Energy 6505	65,710	328	1978	2015
Energy 6503	65,145	327	1988	2015
Energy 6502	64,317	300	1980	2015
Energy 6501	63,875	300	1974	2015
Energy 5501	57,848	341	1969	2015
Energy 2201	22,556	242	1973	2015
Energy 2202	22,457	242	1974	2015
Inactive:				
Energy 9501	94,442	346	1972	2004(3)
Energy 8701	86,454	360	1976	2004(3)

TBD: To be determined.

DH: OPA 90 limitations are not applicable to these double-hulled vessels.

- (1) Prior to January 1 of the year indicated (except for the *Energy 11101* for which the date is June 1), according to OPA 90, the vessel must be refurbished as a double hull or be retired from service in U.S. waters. For a discussion of OPA 90 see Environmental and Other Governmental Regulation below.
- (2) The *Energy 13502*, *Energy 11104* and *Energy 11105* are under construction with delivery anticipated in the fourth quarter of 2005.
- (3) The *Energy 9501* and *Energy 8701* were removed from service for the transport of petroleum products in navigable waters of the United States prior to January 1, 2005 due to OPA 90.

Additional information with respect to our tug and tank barge segment can be found in Note 14 of our consolidated financial statements.

Our Competitive Strengths

Technologically Advanced Fleet of New Generation OSVs. Our technologically advanced, new generation OSVs were designed with the specifications necessary for operations in complex and challenging drilling environments, including deepwater, deep well and other logistically demanding projects. Such other projects include, among other things, the construction, maintenance and repair of offshore infrastructure. Our new generation OSVs have significantly more capacity and operate more efficiently than conventional 180 OSVs. While operators are especially concerned with a vessel's ability to avoid collisions with multi-million dollar drilling rigs or production platforms during adverse weather conditions, they are hesitant to stop operations under such conditions due to the high daily cost of halting such complex operations. Our proprietary vessels, including the MSPVs to be converted,

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incorporate sophisticated technologies and are designed specifically to operate safely in complex exploration and production environments. These technologies include dynamic positioning, roll reduction systems and controllable pitch thrusters, which allow our vessels to maintain position with minimal variance, and our unique cargo handling systems, which permit high volume transfer rates of liquid mud and dry bulk. We believe that we earn higher average dayrates and maintain higher utilization rates than our competitors due to the superior capabilities of our OSVs, our eight-year track record of safe and reliable performance and the collaborative efforts of our in-house design team in providing marine engineering solutions to our customers.

Young OSV Fleet with Lower Cost of Ownership. We believe that we operate one of the youngest fleets of U.S.-flagged OSVs. While the average age of the conventional 180 U.S.-flagged OSV fleet is approximately 25 years, the average age of our OSV fleet is approximately five years. Newer vessels generally experience less downtime and require significantly less maintenance and scheduled drydocking costs compared to older vessels. The average intermediate drydocking for recertification for one of our OSVs generally lasts five to ten days in the shipyard and costs approximately \$0.3 million. In contrast, the typical drydocking for recertification of a conventional 180 OSV may last up to 90 days in the shipyard and can cost as much as \$1.5 million. We believe that our operation of new, technologically advanced OSVs gives us a competitive advantage in obtaining long-term contracts for our vessels and in attracting and retaining crews. Since we accepted delivery of our first OSV in November 1998, the average utilization rate for our OSVs has been approximately 93%. According to ODS-Petrodata, the U.S. Gulf of Mexico industry average was approximately 73% over the same time period, based on vessels available for service. We expect that our newer, larger, faster and more cost-efficient vessels will remain in high demand as deepwater and other complex and challenging exploration, development and production activities continue to increase globally.

Commitment to Safety and Quality. As part of our commitment to safety and quality, we have voluntarily pursued and received certifications that are not generally held by other companies in our industry. We have maintained certifications to the requirements of the International Standards Organization, or ISO, Standards 9002 and 14000 for quality and environmental management, respectively, with respect to the eight tugs and nine tank barges acquired from the Spentonbush/Red Star Group. We are one of the few OSV companies operating in the U.S. Gulf of Mexico that is approved under the U.S. Coast Guard's Streamlined Inspection Program in which we and the Coast Guard cooperate to develop training, inspection and compliance processes, with our personnel conducting periodic examinations of vessel systems to the requirements of the vessels' Coast Guard certifications, and taking corrective actions where necessary. Both of our principal office locations in Covington, Louisiana and Brooklyn, New York, as well as the majority of our vessels, including all of our OSVs and our tugs and tank barges acquired from the Spentonbush/Red Star Group, are also certified under the International Safety Management Code, or ISM Code, developed by the International Maritime Organization to provide internationally recognized standards for the safe management and operation of ships and for pollution prevention. We are currently combining the ISO and ISM certification of our fleetwide operations to standards of the American Bureau of Shipping's Safety, Quality and Environmental Certification, or ABS SQE, which integrates the elements of these certifications into a single program. Quality, Safety and Environmental Certificates are an

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increasingly important consideration for both our OSV and tank barge customers due to the environmental and regulatory sensitivity associated with offshore drilling and production activity and waterborne transportation of petroleum products, respectively. We believe that customers recognize our commitment to safety and that our strong reputation and performance history provide us with a competitive advantage.

Leading Market Presence in Core Target Markets. Our 23 U.S.-flagged OSVs comprise the second largest fleet of technologically advanced, new generation OSVs qualified for work in the U.S. Gulf of Mexico. Currently, 17 of our 23 U.S.-flagged OSVs operate in that area. We also operate eight OSVs offshore Trinidad, with a 60% market share in that market. We also operate one of the largest fleets of tugs and tank barges for the transportation of petroleum products in Puerto Rico and believe that we are the fifth largest tank barge transporter of petroleum products in New York Harbor. We believe that having scale in our selected markets benefits our customers and provides us with operating efficiencies.

Successful Track Record of Vessel Construction and Acquisitions. Our management has significant naval architecture, marine engineering and shipyard experience. We believe we are unique in the manner in which we design our own vessels and work closely with our contracted shipyards in their construction. We typically source and supply many of the manufactured components (owner-furnished equipment), comprising a large portion of the aggregate cost of a vessel, directly from vendors rather than through the shipyard. In addition to substantial cost savings, we believe our approach enables us to better control the construction process, resulting in a higher quality vessel and an enhanced level of service from these vendors during the applicable warranty periods. We believe that our history of designing and constructing 17 new generation OSVs on time and on budget provides us with a competitive advantage in obtaining contracts for our vessels prior to their actual delivery. Our company has designed its operations and management systems in contemplation of additional growth through new vessel construction and acquisitions. To date, we have successfully completed and integrated multiple acquisitions involving 17 ocean-going tugs and 13 ocean-going tank barges, two coastwise tankers, six 220 new generation OSVs, a 165 fast supply vessel, and two AHTS vessels. In November 2003, we commenced construction of five double-hulled tank barges based on a proprietary design developed by our in-house engineering team. Two of these barges have been delivered with the other three expected to be delivered in the fourth quarter of 2005. In addition, we recently announced our fourth OSV newbuild program and our second tug and tank barge newbuild program.

Experienced Management Team with Proven Track Record. Our executive management team has an average of 22 years of domestic and international marine transportation industry-related experience. We believe that our team has successfully demonstrated its ability to grow our fleet through new construction and strategic acquisitions and to secure profitable contracts for our vessels in both favorable and unfavorable market conditions. Moreover, our in-house engineering team has significant operating experience that enables us to more effectively design and manage our new vessel construction program, adapt our vessels for specialized purposes, oversee and manage the drydocking process and provide custom marine engineering solutions to our customers. We believe this will continue to result in a lower overall cost of ownership over the life of our vessels compared to our competitors, as well as a competitive advantage in securing contracts for our OSVs as the benefits of our proprietary designs and in-house engineering capabilities are recognized by our customers.

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Our Strategy

Apply Existing and Develop New Technologies to Meet our Customers' Vessel Needs. Our new generation OSVs and MPSVs are designed to meet the higher capacity and performance needs of our clients' increasingly more complex drilling and production programs. In addition, our proprietary double-hulled tank barges currently under construction are designed to maximize transit speed, improve cargo through-put rates and enhance crew safety features. Our new generation OSVs are equipped with sophisticated propulsion and cargo handling systems, dynamic positioning capabilities and have larger capacities than conventional 180' OSVs. We are committed to applying existing and developing new technologies to maintain a technologically advanced fleet that will enable us to continue to provide a high level of customer service and meet the developing needs of our customers for OSVs and ocean-going tugs and tank barges, as well as other types of vessels that complement our two business segments. Improvements in exploration and production technologies have enabled operators to pursue larger scale, more complex drilling programs in remote locations and under more challenging operating conditions. We believe that the trend toward increasingly more complex projects will increase the demand for our technologically advanced fleet of new generation OSVs. Oil and natural gas exploration and development activity in these regions has increased recently as a result of several factors, including world-class exploration potential, improvements in exploration and production technologies for deepwater projects, and slowing or declining production from onshore and shallow water fields. We believe that deepwater regions worldwide and deep well drilling on the Continental Shelf will continue to be active areas for exploration and development in the foreseeable future, and that demand for our OSVs, which are uniquely equipped to serve the current and planned drilling programs in these markets, will continue to be strong. We also believe that some non-energy related uses for our OSVs may allow us to diversify into additional markets.

Expand Fleet Through Newbuilds and Strategic Acquisitions. We plan to expand our fleet through construction of new vessels, including construction of new generation OSVs and double-hulled tank barges as market conditions warrant, retrofitting of certain vessels and through strategic acquisitions. We recently announced our second tug and tank barge newbuild program and our fourth OSV newbuild program. We have also announced the conversion of two coastwise sulfur tankers into MPSVs and the purchase and upgrade of two ocean-going tugs. Market demand for vessels, including demand for new generation OSVs in domestic and international markets, and the need to replace single-hulled tank barges will be the main determinant of the level and timing of construction of vessels in addition to those constructed under these two building programs and the current tank barge building program. We believe that acquisition opportunities are likely to arise as consolidation continues in our two industry segments. We intend to use our expertise and experience to evaluate and execute strategic acquisitions where the opportunity exists to expand our service offerings in our core markets and create or enhance long-term client relationships. As of September 1, 2005, we have completed multiple acquisitions involving 40 vessels, and constructed 17 proprietary OSVs and two double-hulled tank barges. Additionally, we have three double-hulled tank barges currently under construction with delivery expected during the fourth quarter of 2005.

Pursue Optimal Mix of Long-Term and Short-Term Contracts. We seek to balance our portfolio of customer contracts by entering into both long-term and short-term charters. Long-

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term charters, which contribute to higher utilization rates, provide us with more predictable cash flow. Most of our long-term charters contain annual dayrate escalation provisions. Short-term charters provide the opportunity to benefit from increasing dayrates in favorable market cycles. We plan our mix of long-term and spot market contracts with respect to our OSVs based on anticipated market conditions. Our contract of affreightment with Amerada Hess for the services of tugs and tank barges in the northeastern United States has an initial term of June 1, 2001 through March 31, 2006. We are currently in discussions with Amerada Hess regarding extending our contractual relationship. Because the tank barge market in the northeastern United States is currently operating at or near capacity, we believe that we would be able to replace through other customers any volumes that Amerada Hess does not transport as contemplated in the contract or, if such relationship is not extended, after termination of such contract. Our other tug and tank barge contracts typically have been renewed annually over the last several years. By design, substantially all of our tank barges operate under long-term contracts.

Build Upon Existing Customer Relationships. We intend to build upon existing customer relationships by expanding the services we offer to those customers with diversified marine transportation needs. Many integrated oil and gas companies require OSVs to support their exploration and production activities and ocean-going tugs and tank barges to support their refining, trading and retail distribution activities. Moreover, many of our customers that conduct operations internationally have expressed interest in chartering our OSVs in such markets. We now have 35% of our supply vessel fleet chartered for use in international markets, with eight OSVs operating offshore Trinidad and one fast supply vessel offshore Mexico. Our management team has significant international experience and will continue to evaluate such opportunities.

Optimize Tug and Tank Barge Operations. Due to OPA 90 phase-out requirements of single-hulled barges, the total barrel-carrying capacity of existing tank vessels transporting petroleum products domestically is projected to decline from its current level without a commensurate increase in newbuildings and retrofits. In addition, the energy industry is increasingly outsourcing its marine transportation requirements and focusing on safety and reliability as a key determinant in awarding new business. We believe that these trends will improve the balance of supply and demand, and result in improved tank barge utilization and dayrates.

Customers and Charter Terms

Major oil companies, large independent oil and gas exploration, development and production companies and large oil service companies constitute the majority of our customers for our OSV services, while refining, marketing and trading companies constitute the majority of our customers for our tug and tank barge services. The percentage of revenues attributable to a customer in any particular year depends on the level of oil and natural gas exploration, development and production activities undertaken or refined petroleum products or crude oil transported by a particular customer, the availability and suitability of our vessels for the customer's projects or products and other factors, many of which are beyond our control. For the year ended December 31, 2004, Amerada Hess Corporation accounted for more than 10% of our total revenues. Under the terms of our contract of affreightment with Amerada Hess, we are required to meet certain performance

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criteria and, if we fail to meet such criteria, Amerada Hess would be entitled to terminate the contract. Our contract of affreightment provides for minimum annual cargo volumes to be transported and allows Amerada Hess to reduce its minimum commitment, subject to significant adjustment penalties. If the Amerada Hess contract is not extended, we believe that we would be able to replace their business through other customers. For a discussion of significant customers in prior periods, see Note 13 of the notes to our consolidated financial statements.

We enter into a variety of contract arrangements with our customers, including spot and time charters, contracts of affreightment and consecutive voyage contracts. Our contracts are obtained through competitive bidding or, with established customers, through negotiation.

Most of the contracts for our OSVs contain early termination options in favor of the customer; however some have substantial early termination penalties designed to discourage the customers from exercising such options. By design, substantially all of our tank barges operate under long-term contracts. Since we commenced operations, our OSVs have performed services for more than 60 different customers, and our tugs and tank barges have performed services for more than 250 different customers. Because of the variety and number of customers historically using the services of our fleet, and the approximate balance between supply and demand in both the OSV and tug and tank barge markets, we believe that the loss of any one customer would not have a material adverse effect on our business.

Because we have established a reputation for on-time delivery and reliability, charterers have contacted us in certain circumstances to construct vessels to meet their needs. In such circumstances, we have generally contracted these specially designed vessels for three to five years, with renewal options, before construction is completed. Although we will design vessels to meet the specific needs of a charterer, we ensure in our design that customization does not preclude efficient operation of these vessels for other customers, for other purposes or in other situations.

Competition

We operate in a highly competitive industry. Competition in the OSV and ocean-going tug and tank barge segments of the marine transportation industry primarily involves factors such as:

quality and capability of the vessels;

ability to meet the customer's schedule;

safety record;

reputation;

price; and

experience.

The terms of the Jones Act restrict the ability of vessels that are not built in the United States, documented under the laws of the United States and controlled by U.S. citizens to engage in the coastwise trade in the United States and Puerto Rico. See Environmental and Other Governmental Regulation for a more detailed discussion of the Jones Act.

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We do not anticipate significant competition in the near term from pipelines as an alternative method of petroleum product delivery in the northeastern United States or Puerto Rico. No pipelines are currently under construction that could provide significant competition to tank barges in the northeastern United States or Puerto Rico, nor are any new pipelines likely to be built in the near future due to cost constraints and logistical and environmental requirements.

We believe that only 30% of the new generation OSVs currently operating in the U.S. Gulf of Mexico are owned by publicly-traded companies. We believe we operate the second largest fleet of new generation OSVs in the U.S. Gulf of Mexico, and are the only publicly traded company with a significant fleet of U.S.-flagged, new generation OSVs. In contrast, approximately 75% of the conventional 180 OSVs operating on the Continental Shelf of the U.S. Gulf of Mexico are owned by publicly-traded companies. We operate one of the largest tank barge fleets in Puerto Rico and we believe that we are the fifth largest transporter by tank barge of petroleum products in New York Harbor. Most of our competitors in the tug and tank barge industry are privately held.

Although some of our principal competitors are larger and have greater financial resources and, with respect to OSVs, extensive international operations, we believe that our operating capabilities and reputation enable us to compete effectively with other fleets in the market areas in which we operate. In particular, we believe that the relatively young age and advanced features of our OSVs provide us with a competitive advantage. The ages of our OSVs range from one year to seven years, while the average age of the industry's conventional 180 U.S.-flagged OSV fleet is approximately 25 years. Retirement of older vessels has already commenced and we believe that many more of these older vessels will be retired in the next few years. The young age of our fleet, together with the advanced capabilities of our vessels, position us to take advantage of the expanding deepwater, deep well and other logistically demanding exploration and production projects in the U.S. Gulf of Mexico and around the world. In addition, our new generation OSVs are also increasingly in demand by our customers for conventional drilling projects because of the ability of our OSVs to reduce overall offshore logistics costs for the customer through the vessels' greater capacities and operating efficiencies.

Environmental and Other Governmental Regulation

Our operations are significantly affected by a variety of federal, state, local and international laws and regulations governing worker health and safety and the manning, construction and operation of vessels. Certain U.S. governmental agencies, including the Department of Homeland Security and agencies under its auspices (such as the U.S. Coast Guard and the U.S. Customs and Border Protection), the National Transportation Safety Board, and the Maritime Administration of the U.S. Department of Transportation, have jurisdiction over our operations. In addition, private industry organizations such as the American Bureau of Shipping oversee aspects of our business. The U.S. Coast Guard and the National Transportation Safety Board establish safety criteria and are authorized to investigate vessel accidents and recommend improved safety standards.

The U.S. Coast Guard regulates and enforces various aspects of marine offshore vessel operations. Among these are classification, certification, routes, drydocking intervals, manning

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requirements, tonnage requirements and restrictions, hull and shafting requirements and vessel documentation. Coast Guard regulations require that each of our vessels be drydocked for inspection at least twice within a five-year period.

Under Section 27 of the Merchant Marine Act of 1920, also known as the Jones Act, the privilege of transporting merchandise or passengers for hire in the coastwise trade in U.S. domestic waters is restricted to only those vessels that are controlled by U.S. citizens and are built in and documented under the laws of the United States. To engage in coastwise trade, a corporation is not considered a U.S. citizen unless, among other things:

the corporation is organized under the laws of the United States or of a state, territory or possession of the United States;

at least 75% of the ownership of voting interests with respect to its capital stock is held by U.S. citizens;

the corporation's chief executive officer, president and chairman of the board are U.S. citizens; and

no more than a minority of the number of directors necessary to constitute a quorum for the transaction of business are non-U.S. citizens.

We meet all of the foregoing requirements. If we should fail to comply with these requirements, our vessels would lose their eligibility to engage in coastwise trade within U.S. domestic waters. To facilitate compliance, our certificate of incorporation:

limits ownership by non-U.S. citizens of any class of our capital stock (including our common stock) to 20%, so that foreign ownership will not exceed the 25% permitted;

permits withholding of dividends and suspension of voting rights with respect to any shares held by non-U.S. citizens that exceed 20%;

permits a stock certification system with two types of certificates to aid tracking of ownership;

permits our board of directors to redeem any shares held by non-U.S. citizens that exceed 20%; and

permits our board of directors to make such determinations to ascertain ownership and implement such measures as reasonably may be necessary.

Jones Act restrictions have been challenged by interests seeking to facilitate foreign competition for coastwise trade. Historically, their efforts have been defeated by large margins when considered by the U.S. Congress. Industry associations and participants actively responded to and successfully defeated the latest challenges involving the nature, extent and availability of lease-finance alternatives permitted by a 1996 amendment of the Jones Act. Under the provisions of that amendment, certain foreign interests operated and proposed to operate in the U.S. coastwise trade. In addition, in the interest of national defense, the Secretary of Homeland Security may suspend the citizen requirements of the Jones Act.

On August 9, 2004, following an initiative by the U.S. marine industry interested in protecting the Jones Act, Congress enacted and the President signed into law Public Law No. 108-293. Section 608 of that law amends the lease financing criteria of such Act, adding new

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requirements that effectively eliminate the ability of foreign interests engaged in the marine business to control vessels engaged in U.S. coastwise trade by structuring lease-finance transactions. In addition, the legislation requires the United States Coast Guard to, by August 9, 2007, revoke the authorization of any offshore service vessel that received an endorsement to engage in coastwise trade utilizing the challenged lease-finance structure, unless the vessel otherwise complies with the Jones Act's U.S.-control requirements. Following enactment of the foregoing legislation, we are aware of one foreign marine interest that is subject to the three-year sunset provision and another foreign marine interest that had announced its intention to avail itself of the lease-finance structure, but aborted its plan. Instead, the latter is now utilizing a foreign mortgage-finance structure covering 100% of the construction costs of its vessels, which is currently being challenged by the U.S. marine industry. Should foreign competition be permitted to enter the U.S. coastwise market to any significant extent, it could have an adverse effect on the U.S. OSV industry and on us.

Our operations are also subject to a variety of federal, state, local and international laws and regulations regarding the discharge of materials into the environment or otherwise relating to environmental protection. The requirements of these laws and regulations have become more complex and stringent in recent years and may, in certain circumstances, impose strict liability, rendering a company liable for environmental damages and remediation costs without regard to negligence or fault on the part of such party. Aside from possible liability for damages and costs including natural resource damages associated with releases of hazardous materials including oil into the environment, such laws and regulations may expose us to liability for the conditions caused by others or even acts of ours that were in compliance with all applicable laws and regulations at the time such acts were performed. Failure to comply with applicable laws and regulations may result in the imposition of administrative, civil and criminal penalties, revocation of permits, issuance of corrective action orders and suspension or termination of our operations. Moreover, it is possible that changes in the environmental laws, regulations or enforcement policies that impose additional or more restrictive requirements or claims for damages to persons, property, natural resources or the environment could result in substantial costs and liabilities to us. We believe that we are in substantial compliance with currently applicable environmental laws and regulations.

OPA 90 and regulations promulgated pursuant thereto impose a variety of regulations on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills. A responsible party includes the owner or operator of an onshore facility, pipeline or vessel or the lessee or permittee of the area in which an offshore facility is located. OPA 90 assigns liability to each responsible party for oil removal costs and a variety of public and private damages. Under OPA 90, tank vessels of over 3,000 gross tons that carry oil or other hazardous materials in bulk as cargo, a term, which includes our tank barges, are subject to liability limits of the greater of \$1,200 per gross ton or \$10 million. For any vessels, other than tank vessels, that are subject to OPA 90, the liability limits are the greater of \$500,000 or \$600 per gross ton. A party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of a federal safety, construction or operating regulation. If the party fails to report a spill or to cooperate fully in the cleanup, the liability limits likewise do not apply. Moreover, OPA 90 imposes on responsible parties the need for proof of financial responsibility to cover at least some costs in a potential spill. We have provided satisfactory evidence of financial responsibility to the U.S. Coast Guard for all of our vessels over 300 tons.

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OPA 90 also imposes ongoing requirements on a responsible party, including preparedness and prevention of oil spills, preparation of an oil spill response plan and proof of financial responsibility (to cover at least some costs in a potential spill) for vessels in excess of 300 gross tons. We have engaged the National Response Corporation to serve as our independent contractor for purposes of providing stand-by oil spill response services in all geographical areas of our fleet operations. In addition, our Oil Spill Response Plan has been approved by the U.S. Coast Guard.

OPA 90 requires that all newly-built tank vessels used in the transport of petroleum products be built with double hulls and provides for a phase-out period for existing single hull vessels. We previously retired from service three single-hulled tank barges at the end of 2004 pursuant to OPA 90. Modifying existing vessels to provide for double hulls will be required of all tank barges and tankers in the industry by the year 2015. We are in a favorable position concerning this provision because a significant number of vessels in our fleet of tank barges measure less than 5,000 gross tons. Vessels of such tonnage may continue to operate without double hulls through the year 2015. Under existing legal requirements, therefore, we will be required to modify or replace only two of our existing tank barges before 2015. However, if there are changes in the law that accelerate the time frame for retirement of such vessels, or if customer policies or preferences that mandate the use of double-hulled vessels become significantly more prevalent, absent our implementation of a more aggressive replacement or newbuild program, such changes in law or in customer mandates could adversely affect our results of operations and financial condition.

The Clean Water Act imposes strict controls on the discharge of pollutants into the navigable waters of the United States. The Clean Water Act also provides for civil, criminal and administrative penalties for any unauthorized discharge of oil or other hazardous substances in reportable quantities and imposes substantial liability for the costs of removal and remediation of an unauthorized discharge. Many states have laws that are analogous to the Clean Water Act and also require remediation of accidental releases of petroleum in reportable quantities. Our OSVs routinely transport diesel fuel to offshore rigs and platforms and also carry diesel fuel for their own use. Our OSVs also transport bulk chemical materials used in drilling activities and liquid mud, which contain oil and oil by-products. In addition, our tank barges are specifically engaged to transport a variety of petroleum products. We maintain vessel response plans as required by the Clean Water Act to address potential oil and fuel spills.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, also known as CERCLA or Superfund, and similar laws impose liability for releases of hazardous substances into the environment. CERCLA currently exempts crude oil from the definition of hazardous substances for purposes of the statute, but our operations may involve the use or handling of other materials that may be classified as hazardous substances. CERCLA assigns strict liability to each responsible party for all response and remediation costs, as well as natural resource damages and thus we could be held liable for releases of hazardous substances that resulted from operations by third parties not under our control or for releases associated with practices performed by us or others that were standard in the industry at the time.

The Resource Conservation and Recovery Act regulates the generation, transportation, storage, treatment and disposal of onshore hazardous and non-hazardous wastes and

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requires states to develop programs to ensure the safe disposal of wastes. We generate non-hazardous wastes and small quantities of hazardous wastes in connection with routine operations. We believe that all of the wastes that we generate are handled in all material respects in compliance with the Resource Conservation and Recovery Act and analogous state statutes.

In addition to laws and regulations affecting us directly, our operations are also influenced by laws, regulations and policies which affect our customers' drilling programs and the oil and natural gas industry as a whole.

The Outer Continental Shelf Lands Act gives the federal government broad discretion to regulate the release of offshore resources of oil and natural gas. Because our operations rely primarily on offshore oil and natural gas exploration, development and production, if the government were to exercise its authority under the Outer Continental Shelf Lands Act to restrict the availability of offshore oil and natural gas leases, such an action would have a material adverse effect on our financial condition and results of operations.

We currently have in place protection and indemnity insurance that includes coverage for pollution incidents. Our OSVs have \$5 million in primary insurance coverage for such offshore pollution incidents, with an additional \$100 million in excess umbrella coverage. In addition, our tugs and tank barges have insurance coverage for oil spills with a coverage limit of \$1 billion.

Our tugs and tank barges acquired from the Spentonbush/Red Star Group obtained certifications for environmental management according to the requirements of ISO Standard 14000. Both of our principal office locations in Covington, Louisiana and Brooklyn, New York, as well as the majority of our vessels, including all of our proprietary OSVs and our tugs and tank barges acquired from the Spentonbush/Red Star Group, are also certified to the standards of the ISM Code for the safe management and operation of ships and for pollution prevention. We are currently combining the ISO and ISM Code certification of our fleetwide operations to the standards of ABS SQE, which integrates the elements of these certifications into a single program. Additionally, our OSVs participate in the U.S. Coast Guard's Streamlined Inspection Program (SIP), which ensures the overall readiness level of our vessel lifesaving and other critical safety and emergency systems. We believe that our voluntary attainment and maintenance of these certifications and participation in these programs provides evidence of our commitment to operate in a manner that minimizes any impact on the environment from our fleet operations.

Operating Hazards and Insurance

The operation of our vessels is subject to various risks, such as catastrophic marine disaster, adverse weather conditions, mechanical failure, collision and navigation errors, all of which represent a threat to personnel safety and to our vessels and cargo. We maintain insurance coverage that we consider customary in the industry against certain of these risks, including, as discussed above, \$1 billion in pollution insurance for the tug and tank barge fleet and \$105 million of pollution coverage for the OSVs. We believe that our current level of insurance is adequate for our business and consistent with industry practice, and we have not experienced a loss in excess of our policy limits. We may not be able to obtain insurance

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coverage in the future to cover all risks inherent in our business, or insurance, if available, may be at rates that we do not consider to be commercially reasonable. In addition, as more single-hulled vessels are retired from active service, insurers may be less willing to insure and customers less willing to hire single-hulled vessels. The terms of our entry into a mutual protection and indemnity association covering marine risks relating to our tug and tank barge business allows additional premiums to be called for from time to time, and paid by association members in respect of unanticipated reserve requirements of the association. In 2004, we were called upon to pay such a supplemental premium.

Employees

On September 1, 2005, we had 621 employees, including 507 operating personnel and 114 corporate, administrative and management personnel. None of our employees are represented by a union or employed pursuant to a collective bargaining agreement or similar arrangement. We have not experienced any strikes or work stoppages, and our management believes that we continue to enjoy good relations with our employees.

Properties

Our corporate headquarters are located in Covington, Louisiana. Our office lease covers 23,756 sq. ft. and has an initial term of five years, which commenced in September 2003, with two additional five-year renewal periods. In August 2005, we entered into an agreement which increased our total office space by up to an additional 5,500 sq. ft. We also hold a one-year lease on a 4,500-square-foot warehouse near our corporate headquarters to maintain spare parts inventory. For local support in Puerto Rico, we lease an office consisting of approximately 1,900 square feet. To support our operations in the northeastern United States, we lease office space and warehouse space in Brooklyn, New York, consisting of approximately 66,760 square feet. We also lease dock space, consisting of approximately 36,000 square feet, in Brooklyn, New York. We operate our tug and tank barge fleet from these New York facilities. The lease on our Brooklyn facilities expires in March 2006. We believe that our facilities, including waterfront locations used for vessel dockage and certain vessel repair work, provide an adequate base of operations for the foreseeable future. Information regarding our fleet is set forth above in **Offshore Supply Vessels Our OSV Business** and **Tugs and Tank Barges Our Tug and Tank Barge Business**.

Legal Proceedings

We are not currently a party to any material legal proceedings, although we may from time to time be subject to various legal proceedings and claims that arise in the ordinary course of business.

Seasonality of Business

Demand for our OSV services is directly affected by the levels of offshore drilling activity. Budgets of many of our customers are based upon a calendar year, and demand for our services has historically been stronger in the third and fourth calendar quarters when allocated budgets are expended by our customers and weather conditions are more favorable for offshore activities. Many other factors, such as the expiration of drilling leases and the supply of and demand for oil and natural gas, may affect this general trend in any particular

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year. In addition, we typically have an increase in demand for our OSVs to repair offshore infrastructure immediately following major hurricanes in the U.S. Gulf of Mexico.

Tank barge services are significantly affected by the strength of the U.S. economy, changes in weather patterns and population growth that affect the consumption of and the demand for refined petroleum products and crude oil. The tug and tank barge market, in general, is marked by steady demand over time, although such demand is seasonal and often dependent on weather conditions. Unseasonably mild winters result in significantly lower demand for heating oil in the northeastern United States, which is a significant market for our tank barge services. Conversely, the summer driving season can increase demand for automobile fuel and, accordingly, the demand for our services.

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Our executive officers and directors are currently as follows:

Name	Age	Position	Class(1)
Todd M. Hornbeck	37	Chairman, President, Chief Executive Officer and Secretary	III
Carl G. Annessa	48	Executive Vice President and Chief Operating Officer	N/A
James O. Harp, Jr.	44	Executive Vice President and Chief Financial Officer	N/A
Samuel A. Giberga	43	Senior Vice President and General Counsel	N/A
Timothy P. McCarthy	37	Controller	N/A
Larry D. Hornbeck	66	Director	II
Bruce W. Hunt	47	Director	I
Steven W. Krablin	55	Director	II
Patricia B. Melcher	45	Director	III
Bernie W. Stewart	61	Director	I
David A. Trice	57	Director	II
Andrew L. Waite	44	Director	I

(1) Class I, II and III directors have terms expiring in 2007, 2006 and 2008, respectively.

Todd M. Hornbeck has served as our President and Secretary and as a director since our formation in June 1997. Until February 2002, he also served as Chief Operating Officer. In February 2002, he was appointed to the additional position of Chief Executive Officer and in May 2005 was appointed Chairman of the Board. Mr. Hornbeck worked for the original Hornbeck Offshore Services, Inc., a publicly traded offshore service vessel company, from 1991 to 1996, serving in various positions relating to business strategy and development. Following the merger of Hornbeck Offshore Services, Inc. with Tidewater, Inc. (NYSE:TDW) in March 1996, he accepted a position as Marketing Director Gulf of Mexico with Tidewater, where his responsibilities included managing relationships and overall business development in the U.S. Gulf of Mexico region. He remained with Tidewater until our formation. Mr. Hornbeck currently serves on the Board of Directors of both the National Ocean Industries Association (NOIA) and the Offshore Marine Service Association (OMSA), and is a member of the International Support Vessel Owners Association (ISOA). Mr. Hornbeck is the son of Larry D. Hornbeck and serves as a board designee for himself and his brother, Troy A. Hornbeck, in accordance with a stockholders agreement.

Carl G. Annessa was appointed Executive Vice President in February 2005. Prior to that time, Mr. Annessa served as our Vice President of Operations beginning September 1997. In February 2002, he was appointed Vice President and Chief Operating Officer. Mr. Annessa is responsible for operational oversight and design and implementation of our vessel construction programs. Prior to joining us, he was employed for 17 years by Tidewater, Inc. in various technical and operational management positions, including management of large

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fleets of OSVs in the Arabian Gulf, Caribbean and West African markets, and was responsible for the design of several of Tidewater's vessels. Mr. Annessa was employed for two years by Avondale Shipyards, Inc. as a naval architect before joining Tidewater. Mr. Annessa received a degree in naval architecture and mechanical engineering from the University of Michigan in 1979.

James O. Harp, Jr. was appointed Executive Vice President in February 2005. Before that time, Mr. Harp served as our Vice President and Chief Financial Officer since January 2001. Prior to joining us, Mr. Harp served as Vice President in the Energy Group of RBC Dominion Securities Corporation, an investment banking firm, from August 1999 to January 2001 and as Vice President in the Energy Group of Jefferies & Company, Inc., an investment banking firm, from June 1997 to August 1999. During his investment banking career, Mr. Harp worked extensively with marine-related oil service companies, including as our investment banker in connection with our private placement of common stock in November 2000. From July 1982 to June 1997 he served in a variety of capacities, most recently as Tax Principal, with Arthur Andersen LLP, and had a significant concentration of international clients in the oil service and maritime industries. Since April 1992, he has also served as Treasurer and Director of SEISCO, Inc., a seismic brokerage company.

Samuel A. Giberga was appointed as Senior Vice President in February 2005. Mr. Giberga has also served as General Counsel of Hornbeck Offshore Services, Inc. since January 2004. Prior to joining the Company, Mr. Giberga was engaged in the private practice of law for fourteen years. Mr. Giberga was a partner in the New Orleans based law firm of Corroero, Fishman, Haygood, Phelps, Walmsley & Casteix from February 2000 to December 2003 and served as a partner in Rice, Fowler, Kingsmill, Vance & Flint, LLP from March 1996 to February 2000. During his legal career, Mr. Giberga has worked extensively with marine and energy service companies in a variety of contexts with a significant concentration in general business, international and intellectual property matters. He was also a co-founder of Maritime Claims Americas, L.L.C., which operates a network of correspondent offices for marine protection and indemnity associations throughout Latin America. Mr. Giberga also served as an adjunct professor in intellectual property law matters at Loyola University Law School in New Orleans.

Timothy P. McCarthy has served as our Controller since May 2002. Prior to joining us, Mr. McCarthy served in a variety of capacities, most recently as an Audit Manager, in the assurance practice section of the New Orleans office of Arthur Andersen LLP from July 1994 to May 2002. Previously, he served in the foreign joint interest accounting group with Ocean Drilling and Exploration Company. Mr. McCarthy is a certified public accountant.

Larry D. Hornbeck has served as one of our directors since August 2001. An executive with over 30 years' experience in the OSV business worldwide, Mr. Hornbeck was the founder of the original Hornbeck Offshore Services, Inc., a publicly traded offshore service vessel company with over 100 vessels operating worldwide. From its inception in 1981 until its merger with Tidewater Inc., Mr. Hornbeck served as Chairman of the Board, President and Chief Executive Officer of the original Hornbeck Offshore Services, Inc. Following the merger, Mr. Hornbeck served as a director of Tidewater from March 1996 until October 2000. From 1969 to 1980, Mr. Hornbeck was Chairman, President and Chief Executive Officer of Sealcraft Operators, Inc., a publicly held, specialty service OSV company operating

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worldwide. Mr. Hornbeck is the father of Todd M. Hornbeck and serves as a board designee for Todd M. Hornbeck and Troy A. Hornbeck, his sons, in accordance with a stockholders agreement.

Bruce W. Hunt has served as one of our directors since August 1997 and currently serves as our lead independent director. He has been President of Petrol Marine Corporation since 1988 and President and Director of Petro-Hunt, L.L.C. since 1997, each of which is an energy-related company. Mr. Hunt served as a director of the original Hornbeck Offshore Services, Inc., a publicly traded offshore service vessel company, from November 1992 to March 1996.

Steven W. Krablin joined our board of directors in August 2005. From January 1996 until April 2005, Mr. Krablin served as the Senior Vice President and Chief Financial Officer of National Oilwell, Inc. (NYSE:NOI), a major manufacturer and distributor of oil and gas drilling equipment and related services for land and offshore drilling rigs. In March 2005, National Oilwell merged with Varco International, Inc. (NYSE:VRC) to become National Oilwell Varco, Inc. (NYSE:NOV). Prior to 1996, Mr. Krablin served as Senior Vice President and Chief Financial Officer of Enterra Corporation until its merger with Weatherford International. Since November 2004, Mr. Krablin has also served as a director of Penn Virginia Corporation (NYSE:PVA), an energy company engaged in the exploration, acquisition, development and production of crude oil and natural gas. PVA is also the general partner and largest unit holder in Penn Virginia Resource Partners, L.P. (NYSE: PVR), which manages coal properties and related assets and operates a midstream natural gas gathering and processing business. Mr. Krablin is a Certified Public Accountant.

Patricia B. Melcher joined our board of directors in October 2002. Ms. Melcher has served as the President of Allegro Capital Management, Inc., a privately-owned investment company focused on private equity investments in and consulting to energy-related companies, since 1997, and has served as Interim CEO of Petrocom Energy Ltd., a privately held energy trading firm, from October 1, 2003 to April 1, 2004. From 1989 to 1994, she worked for SCF Partners, L.P., an investment fund sponsor specializing in private equity investments in oilfield service companies, and from 1995 to 1997, she served as a board member and advisory board member of its general partner, L. E. Simmons & Associates, Incorporated. From 1986 to 1989, Ms. Melcher worked for Simmons & Company International, an investment banking firm serving the energy industry.

Bernie W. Stewart has served as one of our directors since November 2001 and served as Chairman of the Board from February 2002 to May 2005. Mr. Stewart was Senior Vice President, Operations of R&B Falcon Corporation, a contract drilling company, and President of R&B Falcon Drilling U.S., its domestic operating subsidiary, from May 1999 until R&B Falcon Corporation (NYSE:FLC) merged with Transocean Sedco Forex Inc. (NYSE:RIG) in January 2001. Between April 1996 and May 1999, he served as Chief Operating Officer of R&B Falcon Holdings, Inc. and as its President from January 1998. From 1993 until joining R&B Falcon Holdings, he was Senior Vice President and Chief Operating Officer for the original Hornbeck Offshore Services, Inc., a publicly traded offshore service vessel company, where he was responsible for overall supervision of the company's operations. From 1986 until 1993, he was President of Western Oceanics, Inc., an offshore drilling contractor. Since leaving R&B Falcon Corporation upon its merger with Transocean Sedco Forex, Mr. Stewart

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has been an independent business consultant. From February 27, 2002 to February 27, 2003, Mr. Stewart advised the company under an advisory services agreement discussed below.

David A. Trice joined our board of directors in October 2002. Mr. Trice has served as the President of Newfield Exploration Company (NYSE:NFX), an independent oil and gas company engaged in the exploration, development and acquisition of crude oil and natural gas properties since May 1999. At Newfield, he has also served as the Chairman of the Board since September 2004, Chief Executive Officer since February 2000 and as a director since 2000. From May 1999 to February 2000, he served as its Chief Operating Officer and from July 1997 to May 1999, he served as its Vice President Finance and International. Mr. Trice served as the President, Chief Executive Officer and Director of the Huffco Group, an international exploration and production company, from 1991 to July 1997.

Andrew L. Waite has served as one of our directors since November 2000. He was appointed to our board as the designee of SCF-IV, L.P. in accordance with a stockholders agreement. Mr. Waite is a Managing Director of L.E. Simmons & Associates, Incorporated and has been an officer of that company since October 1995. He was previously Vice President of Simmons & Company International, an investment banking firm serving the energy industry, where he served from August 1993 to September 1995. From 1984 to 1991, Mr. Waite held a number of engineering and management positions with the Royal Dutch/Shell Group, an integrated oil and gas company. He currently serves as a director of Oil States International, Inc. (NYSE:OIS), a diversified oilfield equipment and service company.

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CERTAIN TRANSACTIONS WITH RELATED PARTIES

The following is a discussion of transactions between our company and its executive officers, directors and stockholders owning more than 5% of our common stock. We believe that the terms of each of these transactions were at least as favorable as could have been obtained in similar transactions with unaffiliated third parties.

Under the terms of a stockholders' agreement among SCF-IV, L.P., Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and us, Todd and Troy Hornbeck and Cari Investment Company have agreed to vote their shares in favor of SCF-IV, L.P.'s designee to our board, so long as SCF-IV, L.P. owns at least 5% of our outstanding common stock. Under this agreement, SCF-IV, L.P. also agrees to vote its shares in favor of two designees of Todd and Troy Hornbeck and two designees of Cari Investment Company to the board of directors. Cari Investment Company waived SCF-IV, L.P.'s obligation to vote in favor of Cari Investment Company's board designees, in connection with the resignation of their designees in May 2004. Pursuant to a voting arrangement entered into between SCF-IV, L.P. and us, SCF-IV, L.P. is restricted from voting 269,346 of its shares.

Under the terms of a stockholders' agreement, Todd and Troy Hornbeck are entitled to require us to file a registration statement under the Securities Act to sell some or all of the shares of our common stock held by them. We are only required to make one such stand-alone registration for Todd and Troy Hornbeck. In addition, holders of a majority of the shares of our common stock issued to the Hornbecks and Cari Investment Company on June 5, 1997 and shares issued with equivalent registration rights to other persons or entities may require us to register some or all of such shares if they have not already been registered and may not then be sold under Rule 144(k) of the Securities Act. Pursuant to a joinder agreement, the William Herbert Hunt Trust Estate may participate in the latter registration rights. Todd and Troy Hornbeck also have the right to include some or all of their shares of common stock in any other registration statement that we file involving our common stock, subject to certain limitations.

Under the terms of a registration rights agreement among the company, SCF-IV, L.P. and certain other stockholders that purchased shares of our common stock in the private placement of our common stock completed in November 2000 (including Larry D. Hornbeck, Todd M. Hornbeck, Carl G. Annessa, James O. Harp, Jr., Paul M. Ordogne and the William Herbert Hunt Trust Estate), such stockholders have the right to include some or all of such shares, and any shares issued in respect of such shares, in any registration statement that we file involving our common stock, subject to certain limitations. Also under this agreement, the holders of a majority of the shares of our common stock issued in the November 2000 private placement are entitled to require us to file a registration statement under the Securities Act to sell some or all of the common stock held by them.

Under the terms of a registration rights agreement among the company and several stockholders that purchased shares of our common stock in a private placement completed in July 2003 (including Larry D. Hornbeck, Patricia B. Melcher, David A. Trice and James O. Harp, Jr.), such stockholders have the right to include some or all of such shares, and any shares issued in respect of such shares, in any registration statement that we file involving our common stock, subject to certain limitations.

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Todd M. Hornbeck, Troy A. Hornbeck and Cari Investment Company have agreed to give us notice of and an opportunity to make a competing offer regarding a decision by any of them to sell or consider accepting an offer to sell to a single person or entity shares of common stock representing 5% or more of our common stock, other than in compliance with Rule 144 or to an affiliate or family member of the holder. SCF-IV, L.P. has also agreed to give us notice of and an opportunity to make a competing offer regarding a decision by it to sell or consider accepting an offer to sell to a single person or entity shares of common stock representing 5% or more of our common stock. SCF-IV, L.P. is further prohibited from transferring any of its shares of our common stock to any person or entity that is a competitor of ours. In addition, certain purchasers that participated in our 2003 private placement agreed to a similar restriction prohibiting the transfer of any of their shares of our common stock to any person or entity that is a competitor of ours.

We have entered into indemnity agreements with each of our executive officers and directors that provide, among other things, that we will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party by reason of his or her position as our executive officer or director of our company, and otherwise to the fullest extent permitted under Delaware law and our Bylaws. These agreements are in addition to the indemnification provided to our officers and directors under our Bylaws in accordance with Delaware law. We have agreed to indemnify Larry D. Hornbeck for any claims, demands, causes of action and damages that may arise out of the use of the Hornbeck Family Ranch, as described below, and to indemnify Todd M. Hornbeck, our Chairman, President and Chief Executive Officer, for any claims, demands, causes of action and damages that may arise from use of his personal boat for company business purposes.

For the past seven years, Larry D. Hornbeck's family has personally supported the development of the company by hosting numerous events at the Hornbeck Family Ranch, including constructing at their own expense a hunting lodge and related facilities. The Ranch facilities have been used for functions intended to foster client and vendor relations, management retreats, Board meetings and special company promotional events. These facilities are used by the company without charge. In addition to costs incurred directly by the company for such activities, the company replenishes expendable goods used by company invitees to the facility. The company has provided, and may, from time to time in the future at its own expense and with Larry Hornbeck's prior approval, provide additional amenities for its representatives and invitees. Certain of these amenities may, by their nature, remain with the property should we ever cease to use the Ranch. We have determined that the use of the Hornbeck Ranch in the past has been beneficial to the company's business and the Board has acknowledged and supported its continued use.

Table of Contents**PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information regarding the beneficial ownership of our voting securities as of September 23, 2005:

each person who is known to us to be the beneficial owner of more than 5% of our voting securities;

each of our directors; and

each of our executive officers and all of our executive officers and directors as a group.

Unless otherwise indicated, each person named below has an address in care of our principal executive offices and has sole power to vote and dispose of the shares of voting securities beneficially owned by them, subject to community property laws where applicable.

<u>Name</u>	<u>Shares of</u>	
	<u>Common Stock</u>	<u>Percentage of</u>
	<u>Beneficially Owned()</u>	<u>Common Stock</u>
		<u>Beneficially Owned(%)</u>
<i>Executive Officers and Directors:</i>		
Todd M. Hornbeck	580,924(1)	2.7
Carl G. Annessa	82,666(2)	*
James O. Harp, Jr.	50,999(3)	*
Timothy P. McCarthy	10,900(4)	*
Samuel A. Giberga	3,633(5)	*
Bernie W. Stewart	51,247(6)	*
Larry D. Hornbeck	137,466(7)	*
Bruce W. Hunt	43,278(8)	*
Patricia B. Melcher	46,466(9)	*
David A. Trice	4,466(9)	*
Andrew L. Waite	16,561(10)	*
Steven W. Krablin		*
All directors and executive officers as a group (12 persons)	1,028,606(11)	4.9
<i>Other 5% Stockholders:</i>		
SCF-IV, L.P.	3,591,008(12)	17.1
Fidelity Management & Research Company	2,073,900(13)	9.9
William Herbert Hunt Trust Estate	2,058,391(14)	9.8
Cari Investment Company	1,410,000(15)	6.7

* Indicates beneficial ownership of less than 1% of the total outstanding common stock.

Beneficial ownership is a term broadly defined by the Commission in Rule 13d-3 under the Securities Exchange Act of 1934, as amended, and includes more than typical forms of stock ownership, that is, stock held in the person's name. The term also includes what is referred to as indirect ownership, meaning ownership of shares as to which a person has or shares investment or voting power. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares as of September 23, 2005 that such person or group has the

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right to acquire within 60 days after such date.

- (1) Includes 30,000 shares held by several family trusts for which Todd M. Hornbeck either serves as trustee or holds voting power pursuant to a power of attorney and options to purchase an aggregate of 64,100 shares. Under the terms of a voting arrangement entered into in 2000, Mr. Todd Hornbeck may be deemed to be a beneficial owner of the shares beneficially owned by SCF-IV, L.P., as described in the table above and the related footnotes. Mr. Todd Hornbeck disclaims beneficial ownership of all shares beneficially owned by SCF-IV, L.P.
- (2) Includes options to purchase an aggregate of 52,666 shares of common stock.
- (3) Includes options to purchase an aggregate of 31,999 shares of common stock.
- (4) Includes options to purchase an aggregate of 10,400 shares of common stock.
- (5) Includes options to purchase an aggregate of 3,333 shares of common stock.
- (6) Includes options to purchase an aggregate of 26,772 shares of common stock.
- (7) Includes options to purchase an aggregate of 15,878 shares of common stock.
- (8) Includes options to purchase an aggregate of 25,278 shares of common stock. Mr. Hunt is a representative of the William Herbert Hunt Trust Estate. As such, Mr. Hunt may be deemed to have voting and dispositive power over the shares beneficially owned by the Trust Estate. Mr. Hunt disclaims beneficial ownership of the shares owned by the Trust Estate.

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- (9) Includes option to purchase an aggregate of 2,466 shares of common stock.
- (10) Includes options to purchase an aggregate of 15,667 shares of common stock. Mr. Waite serves as Managing Director of L.E. Simmons & Associates, Incorporated, the ultimate general partner of SCF-IV, L.P. Mr. Waite disclaims beneficial ownership of the shares beneficially owned by SCF-IV, L.P. and all shares with respect to which SCF-IV, L.P. has disclaimed beneficial ownership in footnote 13 below.
- (11) Includes options to purchase an aggregate of 251,035 shares of common stock.
- (12) Based on a Form 4 dated September 7, 2005 filed with the SEC to reflect shares beneficially owned by the reporting person as of that date. SCF-IV, L.P. is a limited partnership of which the ultimate general partner is L.E. Simmons & Associates, Incorporated. The Chairman of the Board and President of L.E. Simmons & Associates, Incorporated is Mr. L.E. Simmons. As such, Mr. Simmons may be deemed to have voting and dispositive power over the shares owned by SCF-IV, L.P. The address of Mr. Simmons and SCF-IV, L.P. is 6600 J.P. Morgan Chase Tower, 600 Travis Street, Houston, Texas 77002. Pursuant to a voting arrangement entered into between SCF-IV, L.P. and us in connection with our private placement of common stock completed in October 2001, SCF is restricted from voting 269,346 of those shares. Under the terms of a voting arrangement entered into in 2000, SCF-IV, L.P. may be deemed to be the beneficial owner of the shares beneficially owned by Todd and Troy Hornbeck and the shares beneficially owned by Cari Investment Company, as described in the table above and the related footnotes. SCF-IV, L.P. disclaims beneficial ownership of all shares beneficially owned by Todd and Troy Hornbeck and Cari Investment Company. SCF-IV, L.P. is selling 2,000,000 shares of common stock in this offering. See Selling Stockholder .
- (13) Based on a Form 13F filed with the SEC to reflect shares beneficially owned by the reporting person at June 30, 2005. Fidelity Management & Research Company s address is 82 Devonshire Street, Boston, MA 02109.
- (14) Based on a Schedule 13G dated February 8, 2005 filed with the SEC to reflect shares beneficially owned by the reporting person at December 31, 2004. The Trust Estate s address is 3900 Thanksgiving Tower, 1601 Elm Street, Dallas, Texas 75201.
- (15) Based on a Schedule 13G dated February 15, 2005 filed with the SEC to reflect shares beneficially owned by the reporting person at December 31, 2004. Cari Investment Company s address is 1100 Poydras Street, Suite 2000, New Orleans, Louisiana 70163.

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Table of Contents**SELLING STOCKHOLDER**

The table sets forth the selling stockholder's beneficial ownership of our common stock as of September 23, 2005 as provided by the selling stockholder. Beneficial ownership includes outstanding common stock and common stock that a person has the right to acquire within 60 days of this prospectus supplement.

Name	Shares Beneficially Owned Before Offering		Maximum Number of Shares to be Offered	Shares Beneficially Owned After Offering	
	No.	Percentage of Our Common Stock Outstanding		No.	Percentage of Our Common Stock Outstanding(2)
SCF-IV, L.P.(1)	3,591,008	17.1%	2,000,000	1,591,008	5.9%

(1) SCF-IV, L.P. is a limited partnership of which the ultimate general partner is L.E. Simmons & Associates, Incorporated. Andrew L. Waite, who has served on our Board of Directors since 2000, serves as a Managing Director of L.E. Simmons & Associates, Incorporated. Mr. Waite has disclaimed beneficial ownership of the shares beneficially owned by SCF-IV, L.P.

(2) Assumes that the underwriters' option to purchase an additional 1,215,000 shares of our common stock is not exercised.

Under the terms of a registration rights agreement among the company, SCF-IV, L.P. and certain other stockholders that purchased shares of our common stock in the private placement of our common stock completed in November 2000, such stockholders have the right to include some or all of such shares, and any shares issued in respect of such shares, in any registration statement that we file involving our common stock, subject to certain limitations. We filed a shelf registration statement on Form S-3 that was declared effective on September 15, 2005, pursuant to which the company is offering its shares of common stock for sale under this prospectus supplement, and SCF-IV, L.P. has elected to participate in this offering. Under the registration rights agreement, we will pay all expenses incurred with respect to the registration and sale of the selling stockholder's stock except that the selling stockholder will pay all underwriting fees, discounts and commissions related to any shares sold, as well as certain out-of-pocket expenses incurred directly by the selling stockholder.

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We, SCF-IV, L.P. and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and Jefferies & Company, Inc. are the representatives of the underwriters.

<u>Underwriters</u>	<u>Number of Shares</u>
Goldman, Sachs & Co.	2,997,000
Jefferies & Company, Inc.	2,592,000
Lehman Brothers Inc.	607,500
Bear, Stearns & Co. Inc.	607,500
Johnson Rice & Company, L.L.C.	607,500
Simmons & Company International	283,500
Hibernia Southcoast Capital, Inc.	202,500
Pritchard Capital Partners LLC	202,500
Total	8,100,000

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 1,215,000 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us and the selling stockholder. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 1,215,000 additional shares.

Paid by Hornbeck Offshore

	<u>No Exercise</u>	<u>Full Exercise</u>
Per Share	\$ 1.591	\$ 1.591
Total	\$ 9,705,100	\$ 11,638,165

Paid by SCF-IV, L.P.

	No Exercise	Full Exercise
	<u> </u>	<u> </u>
Per Share	\$ 1.591	\$ 1.591
Total	\$ 3,182,000	\$ 3,182,000

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Shares sold by the underwriters to the public will initially be offered at the initial price to public set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$.9546 per share from the initial price to public. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$.1000 per share from the initial price to public. If all of the shares are not sold at the initial price to public, the representatives may change this offering price and the other selling terms.

We, our executive officers and directors, the selling stockholder and certain other stockholders have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus supplement continuing through the date 90 days after the date of this prospectus supplement, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriters in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of our stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

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Each of the underwriters has represented and agreed that:

- (a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to Hornbeck Offshore; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus

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Directive in that Member State, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the securities to the public in Singapore.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$0.5 million.

We and the selling stockholder have severally agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the company, for which they received or will receive customary fees and expenses. An affiliate of one of the underwriters is a lender under our revolving credit facility and will be repaid with a portion of the net proceeds from this offering. In addition, Goldman, Sachs & Co. served as co-lead and sole book-running manager, and Jefferies & Company, Inc. served as co-lead manager, on the initial public offering of Hornbeck Offshore in March

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2004. Goldman, Sachs & Co., Bear, Stearns & Co. Inc. and Jefferies & Company, Inc. also served as joint book-running managers in the offering of our existing 6.125% senior notes due 2014. Goldman, Sachs & Co. served as dealer manager for the tender offer and as solicitation agent for the solicitation of consents relating to our then existing 10.625% senior notes due 2008, which was effected in 2004. In addition, Goldman, Sachs & Co., Bear, Stearns & Co. Inc. and Jefferies & Company, Inc. are serving as joint book-running managers on a concurrent private offering of \$75 million of our 6.125% senior notes due 2014.

LEGAL MATTERS

The validity of the common stock offered by this prospectus supplement will be passed upon for us by Winstead Sechrest & Minick P.C., Houston, Texas. R. Clyde Parker, Jr., a shareholder in Winstead Sechrest & Minick P.C., is a nonvoting, advisory director appointed by our board of directors, owns 60,400 shares of our common stock and has options to acquire 24,125 shares of our common stock. Certain legal matters in connection with this offering will be passed on for the underwriters by Vinson & Elkins L.L.P., Houston, Texas, and for the selling stockholder by Baker Botts L.L.P., Houston, Texas.

EXPERTS

The consolidated financial statements of Hornbeck Offshore Services, Inc. appearing in this prospectus supplement and incorporated in this prospectus supplement by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2004 have been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is incorporated by reference herein, and have been included herein and so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, under which we file annual, quarterly and current reports, proxy statements and other information with the Commission. You may read and copy this information at the following location of the Commission at prescribed rates at Public Reference Room, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Please call the Commission at (800) 732-0330 for further information about the Public Reference Room. In addition, our reports and other information concerning us can be inspected at The New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, where our common stock is listed.

The Commission also maintains an Internet website that contains reports, proxy statements and other information about issuers that file electronically with the Commission. The address of that website is www.sec.gov. Commission filings may also be accessed free of charge through our Internet website at www.hornbeckoffshore.com (click on Investors and then SEC Filings). Information contained on our website, other than documents specifically incorporated by reference into this prospectus supplement is not intended to be incorporated by reference into this prospectus supplement, and you should not consider that information as part of this prospectus supplement.

Table of Contents**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We are incorporating by reference into this prospectus supplement certain information that we file with the Commission, which means that we are disclosing important information to you by referring you to those documents. The information incorporated by reference is deemed to be part of this prospectus supplement, except for any information superseded by information contained directly in this prospectus supplement. This prospectus supplement incorporates by reference the documents set forth below that we have previously filed with the Commission (excluding such documents or portions thereof that are not deemed filed under the Exchange Act in accordance with the Exchange Act and applicable Commission rules and regulations). These documents contain important information about us and our finances.

<u>Commission Filings (No. 001-32108)</u>	<u>Period</u>
Annual Report on Form 10-K	Year Ended December 31, 2004 (as amended by Amendment No. 1 on Form 10-K/A filed on August 11, 2005)
Quarterly Reports on Form 10-Q	Quarters Ended March 31, 2005 (as amended by Amendment No. 1 on Form 10-Q/A filed on August 11, 2005) and June 30, 2005
Current Reports on Form 8-K	Filed on January 21, 2005, February 8, 2005, February 25, 2005, March 18, 2005, May 4, 2005, May 5, 2005, July 22, 2005, August 5, 2005, August 31, 2005, September 6, 2005 and September 26, 2005
Registration Statement on Form 8-A/A	Filed on September 3, 2004, and any future amendment or report updating that description

All documents that we file with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding such documents or portions thereof that are not deemed filed under the Exchange Act in accordance with the Exchange Act and applicable Commission rules and regulations) from the date of this prospectus supplement and prior to the termination of the offering of the securities under this prospectus supplement shall also be deemed to be incorporated herein by reference. Any statement contained in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference into this prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus supplement modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

We will provide without charge to each person to whom this prospectus supplement is delivered, upon written or oral request of such person, a copy of any or all documents incorporated by reference in this prospectus supplement. Requests for such copies should be directed to James O. Harp, Jr., Executive Vice President and Chief Financial Officer, Hornbeck Offshore Services, Inc., 103 Northpark Boulevard, Suite 300, Covington, Louisiana 70433, by mail, or if by telephone at (985) 727-2000. Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference in this prospectus supplement.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Hornbeck Offshore Services, Inc.

We have audited the accompanying consolidated balance sheets of Hornbeck Offshore Services, Inc. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hornbeck Offshore Services, Inc. and subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

New Orleans, Louisiana

February 18, 2005

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Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	December 31,		June 30,
	2003	2004	2005
			(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 12,899	\$ 54,301	\$ 12,443
Accounts receivable, net of allowance for doubtful accounts of \$454, \$407 and \$311, respectively	16,544	22,028	24,534
Prepaid insurance	291	530	4,443
Property taxes receivable	2,144	2,936	2,880
Other current assets	1,661	1,934	2,461
Total current assets	33,539	81,729	46,761
Property, plant and equipment, net	316,715	361,219	422,363
Goodwill, net	2,628	2,628	2,628
Deferred charges, net	12,316	14,863	15,096
Other assets	44	132	221
Total assets	\$ 365,242	\$ 460,571	\$ 487,069
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 3,884	\$ 4,845	\$ 8,961
Accrued interest	7,799	2,391	1,282
Accrued payroll and benefits	3,911	3,991	5,747
Deferred revenue		1,723	1,949
Current portion of long-term debt, net of original issue discount of \$0, \$97 and 0, respectively		15,449	
Other accrued liabilities	247	774	990
Total current liabilities	15,841	29,173	18,929
Revolving credit facility	40,000		16,000
Long-term debt, net of original issue discount of \$2,323, \$0 and \$0, respectively	172,677	225,000	225,000
Deferred tax liabilities, net	23,567	22,247	29,438
Other liabilities	762	1,247	982
Total liabilities	252,847	277,667	290,349
Stockholders equity:			

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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; 14,528, 20,822 and 20,875 shares issued and outstanding, respectively

Additional paid-in capital	145	208	209
Retained earnings	90,351	163,264	164,109
Accumulated other comprehensive income	21,883	19,400	32,361
	16	32	41
	<u>112,395</u>	<u>182,904</u>	<u>196,720</u>
Total liabilities and stockholders equity	<u>\$ 365,242</u>	<u>\$ 460,571</u>	<u>\$ 487,069</u>

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

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

(In thousands, except per share data)

	Year Ended December 31,			Six Months Ended	
				June 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	
Revenues	\$ 92,585	\$ 110,813	\$ 132,261	\$ 61,635	\$ 78,986
Costs and expenses:					
Operating expenses	36,337	46,805	58,520	28,047	31,468
Depreciation	10,351	14,393	17,408	8,556	9,211
Amortization	1,945	3,197	5,727	2,271	3,396
General and administrative expenses	9,681	10,731	14,759	6,292	8,571
	58,314	75,126	96,414	45,166	52,646
Operating income	34,271	35,687	35,847	16,469	26,340
Other income (expense):					
Loss on early extinguishment of debt			(22,443)		(1,698)
Gain on sale of assets					1,072
Interest income	667	178	356	106	243
Interest expense	(16,207)	(18,523)	(17,698)	(9,801)	(5,438)
	(15,540)	(18,345)	(39,785)	(9,695)	(5,821)
Other income (expense), net	55	706	135	(6)	57
	(15,485)	(17,639)	(39,650)	(9,701)	(5,764)
Income (loss) before income taxes	18,786	18,048	(3,803)	6,768	20,576
Income tax expense (benefit)	7,139	6,858	(1,320)	2,500	7,615
Net income (loss)	\$ 11,647	\$ 11,190	\$ (2,483)	\$ 4,268	\$ 12,961
Basic earnings (loss) per common share	\$ 0.96	\$ 0.84	\$ (0.13)	\$ 0.24	\$ 0.62
Diluted earnings (loss) per common share	\$ 0.94	\$ 0.82	\$ (0.13)	\$ 0.23	\$ 0.61
Weighted average basic shares outstanding	12,098	13,397	19,330	17,838	20,839
Weighted average diluted shares outstanding	12,428	13,604	19,330	18,317	21,274

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

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Table of Contents**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
	Shares	Amount				
Balance at January 1, 2002	12,054	\$ 120	\$ 60,700	\$ (954)	\$	\$ 59,866
Shares issued	75	1	412			413
Net income				11,647		11,647
Repurchase and retirement of shares	(7)		(50)			(50)
Balance at December 31, 2002	12,122	\$ 121	\$ 61,062	\$ 10,693	\$	\$ 71,876
Private placement of common stock	2,400	24	29,243			29,267
Other shares issued	6		46			46
Comprehensive income:						
Net income				11,190		11,190
Foreign currency translation					16	16
Total comprehensive income						11,206
Balance at December 31, 2003	14,528	\$ 145	\$ 90,351	\$ 21,883	\$ 16	\$ 112,395
Initial public offering of common stock	6,126	61	71,743			71,804
Other shares issued	168	2	1,170			1,172
Comprehensive income:						
Net loss				(2,483)		(2,483)
Foreign currency translation					16	16
Total comprehensive income						(2,467)
Balance at December 31, 2004	20,822	\$ 208	\$ 163,264	\$ 19,400	\$ 32	\$ 182,904
Other shares issued	53	1	845			846
Comprehensive income:						
Net income				12,961		12,961
Foreign currency translation					9	9
Total comprehensive income						12,970
Balance at June 30, 2005 (unaudited)	20,875	\$ 209	\$ 164,109	\$ 32,361	\$ 41	\$ 196,720

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)

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net (loss) income	\$ 11,647	\$ 11,190	\$ (2,483)	\$ 4,268	\$ 12,961
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation	10,351	14,393	17,408	8,557	9,211
Amortization	1,945	3,197	5,727	2,270	3,396
Provision for bad debts	336	56	(47)	(67)	(96)
Deferred tax expense (benefit)	7,139	6,858	(1,320)	2,500	7,615
Gain on sale of assets	(32)	(712)	(65)		(1,072)
Equity in income from investment	(27)	(17)	(87)		(68)
Loss on early extinguishment of debt			22,443		1,698
Amortization of financing costs	1,455	1,531	1,532	791	366
Changes in operating assets and liabilities:					
Accounts receivable	(3,926)	(2,297)	(5,437)	343	(2,360)
Prepaid insurance and other current assets	69	(1,338)	(1,305)	(290)	(4,455)
Deferred drydock charges and other assets	(4,389)	(6,397)	(12,965)	(4,523)	(3,687)
Accounts payable	(295)	(1,627)	1,130	875	4,117
Accrued liabilities and other liabilities	1,095	610	2,226	(1,812)	1,933
Accrued interest	(413)	52	(5,352)	(5)	(1,109)
Net cash provided by operating activities	24,955	25,499	21,405	12,907	28,450
CASH FLOWS FROM INVESTING ACTIVITIES:					
Construction of new vessels	(48,359)	(38,047)	(41,624)	(20,967)	(30,955)
Acquisition of vessels		(55,400)	(10,000)	(10,000)	(29,965)
Conversion and retrofit of vessels					(6,644)
Proceeds from sale of vessels	315	1,650			2,041
Capital expenditures	(7,727)	(6,369)	(9,754)	(4,340)	(3,870)
Net cash used in investing activities	(55,771)	(98,166)	(61,378)	(35,307)	(69,393)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of senior notes			225,000		
Repayment of 10 ⁵ /8% senior notes			(159,454)		(15,546)
Redemption premium on retirement of debt					(1,436)
Payments for bond refinancing costs			(21,006)		
Net proceeds from (payments on) borrowings under revolving credit facility		40,000	(40,000)	(40,000)	16,000
Proceeds from borrowings under other debt agreements	60	1,656			
Payments on borrowings under other debt agreements	(453)	(1,488)			
Deferred financing costs	(129)	(159)	3,842	(96)	(363)
Gross proceeds from initial public offering			79,643	79,643	
Payments for initial public offering costs			(7,839)	(7,441)	
Repurchase of shares	(50)				
Net cash proceeds from other shares issued	413	23,313	1,172	1,119	421
Net cash provided by (used in) financing activities	(159)	63,322	81,358	33,225	(924)

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Effects of exchange rate changes on cash		16	16	10	9
Net increase (decrease) in cash and cash equivalents	(30,975)	(9,329)	41,402	10,835	(41,858)
Cash and cash equivalents at beginning of period	53,203	22,228	12,899	12,899	54,301
Cash and cash equivalents at end of period	\$ 22,228	\$ 12,899	\$ 54,301	\$ 23,734	\$ 12,443
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:					
Interest paid	\$ 19,075	\$ 19,718	\$ 24,023	\$ 10,308	\$ 8,202
Income taxes paid	\$ 65	\$	\$	\$	\$
NONCASH FINANCING ACTIVITIES:					
Issuance of common stock to partially fund the purchase of offshore supply vessels	\$	\$ 6,000	\$	\$	\$

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Formation

Hornbeck Offshore Services, Inc. (or the Company) was incorporated in the state of Delaware in 1997. The Company wholly owns Hornbeck Offshore Transportation (HOT), Hornbeck Offshore Services (HOS), HOS-IV (HOS-IV), Hornbeck Offshore Operators (HOO), Energy Services Puerto Rico (ESPR), Hornbeck Offshore Trinidad & Tobago (HOTT), and Hornbeck Offshore Military Ventures (HOMV), each of which are limited liability companies (or LLCs). The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations

HOS, HOTT and HOS-IV operate offshore supply vessels (OSVs) to provide support and specialty services to the offshore oil and gas exploration and production industry, primarily in the U.S. Gulf of Mexico and select international markets. In two separate acquisitions, on June 26, 2003 and August 8, 2003, a wholly-owned subsidiary of the Company, HOS-IV, acquired a total of six new generation OSVs from Candy Marine Investment Corporation (see Note 15). HOT operates ocean-going tugs and tank barges that provide transportation of petroleum products. HOO is a service subsidiary that provides administrative and personnel support to the other subsidiaries. ESPR provides administrative and personnel support to vessels operating in Puerto Rico. HOMV is an inactive company.

During 2002, the Company obtained a 49% interest in Hornbeck Offshore Trinidad & Tobago Limited (HOTT-Ltd). HOTT-Ltd is a vessel crewing and management services company established to support the Company's Trinidad & Tobago-based operations. The 49% interest owned by the Company is being recorded using the equity method. The Company's equity in income from investments is not material.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company charters its OSVs to clients under time charters based on a daily rate of hire and recognizes revenue as earned on a daily basis during the contract period of the specific vessel.

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The Company contracts its tank barges to clients primarily under contracts of affreightment, under which revenue is recognized based on the number of days incurred for the voyage as a percentage of total estimated days applied to total estimated revenues. Voyage related costs are expensed as incurred. Substantially all voyages under these contracts are less than 10 days in length. The Company also contracts certain of its tank barges under time charters based on a daily rate of hire. Revenue is recognized on such contracts as earned on a daily basis during the contract period of the specific vessel.

Deferred revenue represents payments received from customers in advance of vessels commencing time charters.

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Table of Contents***Cash and Cash Equivalents***

Cash and cash equivalents consist of all highly liquid investments in money market funds, deposits and investments available for current use with an initial maturity of three months or less.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization of equipment and leasehold improvements are computed using the straight-line method based on the estimated useful lives of the related assets. Major modifications and improvements, which extend the useful life of the vessel, are capitalized and amortized over the remaining useful life of the vessel. Gains and losses from retirements or other dispositions are recognized as incurred.

The estimated useful lives by classification are as follows:

Tugs	14-25 years
Tank barges	3-25 years
Offshore supply vessels	20-25 years
Non-vessel related property, plant and equipment	5-10 years

All of the Company's single-hulled tank barges have estimated useful lives based on their classification under the Oil Pollution Act of 1990 and three of such barges were retired from service at December 31, 2004. The Company's double-hulled tank barges have an estimated useful life of 25 years.

Deferred Charges

The Company's tugs, tank barges, and OSVs are required by regulation to be recertified after certain periods of time. The Company defers the drydocking expenditures incurred due to regulatory marine inspections and amortizes the costs on a straight-line basis over the period to be benefited from such improvements (generally 30 or 60 months). Financing charges are amortized over the term of the related debt using the interest method.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The provision for income taxes includes provisions for federal, state and foreign income taxes.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Table of Contents***Concentration of Credit Risk***

Customers are primarily major and independent, domestic and international, oil and oil service companies. The Company's customers are granted credit on a short-term basis and related credit risks are considered minimal. The Company usually does not require collateral. The Company provides an estimate for uncollectible accounts based primarily on management's judgment. Management uses historical losses, current economic conditions and individual evaluations of each customer to make adjustments to the allowance for doubtful accounts. The Company's historical losses have not been significant. However, because amounts due from individual customers can be significant, future adjustments to the allowance can be material if one or more individual customer's balances are deemed uncollectible.

The following table represents the allowance for doubtful accounts (in thousands):

	<u>December 31,</u>			<u>June 30,</u>
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
				(Unaudited)
Balance, beginning of year	\$ 133	\$ 469	\$ 454	\$ 407
Changes to provision	336	56	(47)	(96)
Write off of uncollectible accounts		(71)		
Balance, end of year	<u>\$ 469</u>	<u>\$ 454</u>	<u>\$ 407</u>	<u>\$ 311</u>

Property taxes receivable represents assessed property taxes on the Company's vessels by local municipalities that are refunded upon the filing of state tax returns.

Goodwill

Goodwill reflects the excess of cost over the estimated fair value of the net assets acquired. Fair value is determined based on discounted cash flow or appraised values, as appropriate. The Company has performed goodwill impairment reviews by reporting unit based on a fair value concept as required by Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, using a multiple of earnings before interest, depreciation, taxes and amortization (EBITDA) and earnings. Such fair value calculations have not resulted in the impairment of goodwill.

Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation* established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As provided for under SFAS 123, the

Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. For all periods presented, the Company has used the intrinsic value method, in which compensation cost for stock options, if any, is measured as the excess of the estimated fair value market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Refer to Recent Accounting Pronouncements below.

Impairment of Long-Lived Assets

When events or circumstances indicate that the carrying amount of long-lived assets to be held and used or intangible assets might not be recoverable, the expected future

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undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined based on discounted cash flow or appraised values, as appropriate.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123). SFAS 123R supersedes Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on the Company's results of operations, although it will have no impact on its overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income (loss) and earnings (loss) per share in Note 8 to the Company's consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized for such excess tax deductions was \$0.4 million in 2004 and \$0.3 million for the six months ended June 30, 2005. On April 14, 2005, the Securities and Exchange Commission, or SEC, announced amended compliance dates for SFAS 123R. The SEC previously required companies to adopt this standard no later than July 1, 2005, but the new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, that begins after June 15, 2005. We will not be required to comply with SFAS 123R until the quarter ended March 31, 2006 and we do not currently intend to adopt this standard prior to such time.

Table of Contents**3. Earnings Per Share and Reverse Stock Split**

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. 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):

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	
Net income (loss)	\$ 11,647	\$ 11,190	\$ (2,483)	\$ 4,268	\$ 12,961
Weighted average number of shares of common stock outstanding	12,098	13,397	19,330	17,838	20,839
Add: Net effect of dilutive stock options (1) (2)	330	207		479	435
Adjusted weighted average number of shares of common stock outstanding	12,428	13,604	19,330	18,317	21,274
Earnings (loss) per common share:					
Basic	\$ 0.96	\$ 0.84	\$ (0.13)	\$ 0.24	\$ 0.62
Diluted	\$ 0.94	\$ 0.82	\$ (0.13)	\$ 0.23	\$ 0.61

- (1) At December 31, 2004, stock options representing rights to acquire 273 shares of common stock were excluded from the calculation of diluted earnings per share because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common stock for the period or when the results from operations are a net loss.
- (2) Stock options representing rights to acquire 377 shares of common stock for the six months ended June 30, 2004 and 4 shares of common stock for the six months ended June 30, 2005, respectively, were excluded from the calculation of diluted earnings per share, because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common stock for the period.

On March 5, 2004, the Company effected a 1-for-2.5 reverse stock split of its common stock that caused the number of outstanding shares to decrease from approximately 36.3 million to 14.5 million. For all periods, the share amounts and per share data reflected throughout these financial statements have been adjusted to give effect to the reverse stock split. Basic and diluted earnings per common share are each calculated based on the weighted average number of shares outstanding during the periods adjusted for the effect of the reverse stock split.

4. Defined Contribution Plan

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The Company offers a 401(k) plan to all full time employees. Employees must be at least twenty-one years of age and have completed three months of service to be eligible for participation. Participants may elect to defer up to 60% of their compensation, subject to certain statutorily established limits. The Company may elect to make annual matching and/or profit sharing contributions to the plan. During the years ended December 31, 2002, 2003 and

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2004, and for the periods ended June 30, 2004 and 2005, the Company made contributions of approximately \$0.1 million, \$0.1 million, \$0.5 million, \$0.2 million and \$0.3 million, respectively.

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in thousands):

	December 31,		June 30,
	2003	2004	2005
			(Unaudited)
Tugs	\$ 28,876	\$ 30,036	\$ 39,034
Tank barges	37,121	40,663	55,896
Offshore supply vessels	265,729	287,222	318,741
Construction in progress	20,319	53,232	62,454
Non-vessel related property, plant and equipment	3,382	6,170	8,718
Less: Accumulated depreciation	(38,712)	(56,104)	(62,480)
	\$ 316,715	\$ 361,219	\$ 422,363

Interest expense of approximately \$3.9 million, \$2.7 million and \$3.0 million was capitalized for the years ended December 31, 2002, 2003 and 2004, respectively. Capitalized interest for the six months ended June 30, 2005 was \$2.1 million

6. Long-Term Debt***Senior Notes***

On July 24, 2001, the Company issued \$175 million in aggregate principal amount of 10.625% senior notes, or old senior notes. The Company realized net proceeds of approximately \$165 million, a substantial portion of which was used to repay and fully extinguish all of the Company's then-existing credit facilities. The old senior notes were due to mature on August 1, 2008 and required semi-annual interest payments at an annual rate of 10.625% on February 1 and August 1 of each year until maturity. The effective interest rate on the old senior notes was 11.18%. No principal payments were due until maturity. On November 3, 2004, the Company commenced a cash tender offer for all of the old senior notes. Old senior notes totaling approximately \$159.5 million, or 91% of the notes outstanding, were validly tendered during the designated tender period and repurchased. The remaining \$15.5 million of old senior notes were redeemed on January 14, 2005. A loss on early extinguishment of debt for the old senior notes of approximately \$22.4 million was recorded during 2004 and includes the tender offer costs, an allocable portion of the write off of unamortized financing costs and original issue discount, and a bond redemption premium. A loss on early extinguishment of debt of approximately \$1.7 million will be recorded for the first quarter 2005 for those costs allocable to the \$15.5 million of old senior notes redeemed on January 14, 2005.

On November 23, 2004, the Company issued \$225 million in aggregate principal amount of 6.125% senior notes, or new senior notes. The net proceeds to the Company from the offering were approximately \$219 million, net of estimated transaction costs. The Company used \$181 million of proceeds to repurchase approximately 91% of the old senior notes pursuant to its tender offer. The \$181 million comprised the total consideration paid for the old senior notes tendered, including related accrued interest and consent fees. The residual

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proceeds were available to redeem the remaining 9% of old senior notes and for general corporate purposes, which may include funding for the acquisition, construction or retrofit of vessels. The new senior notes mature on December 1, 2014 and require semi-annual interest payments at an annual rate of 6.125% on June 1 and December 1 of each year until maturity. The effective interest rate on the new senior notes is 6.38%. No principal payments are due until maturity. The new senior notes are unsecured senior 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 incurred by the Company in the future. The Company's new senior notes are guaranteed by certain of its subsidiaries. The guarantees are full and unconditional, joint and several, and any subsidiaries that are not guarantors are minor as defined in the Securities and Exchange Commission regulations. Hornbeck Offshore Services, Inc., as the parent company issuer of the new senior notes, has no independent assets or operations. 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 two subsidiaries to the parent. The Company may, at its option, redeem all or part of the new senior notes from time to time at specified redemption prices and subject to certain conditions required by the indenture. 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.

In February 2005, the Company commenced a registered exchange offer to exchange its 6.125% senior notes due December 1, 2014, which were initially sold pursuant to exemptions under the Securities Act of 1933, or Securities Act, for 6.125% senior notes with substantially the same terms, except that the issuance of the senior notes issued in the exchange offer were registered under the Securities Act. Both series of senior notes were issued under and are entitled to the benefits of the same indenture. The exchange offer was completed on March 7, 2005.

Revolving Credit Facility

Effective February 13, 2004, the Company amended and restated its senior secured revolving credit facility to increase its size to \$100 million and extend its maturity. The borrowing base remains unchanged at \$60 million. The revolving credit facility now matures on February 13, 2009. Pursuant to the indenture governing the 6.125% senior notes, unless the Company meets a specified consolidated interest coverage ratio test, the level of permitted borrowings under this facility is limited to the greater of \$75 million or 20% of the Company's consolidated net tangible assets determined as of the end of the Company's most recently completed fiscal quarter for which internal financial statements are available. Borrowings under the revolving credit facility accrue interest, at the Company's option, at either (1) the prime rate announced by Citibank, N.A. in New York, plus a margin of up to 1.0%, or (2) the London Interbank Offered Rate, plus a margin of 1.5% to 3.5%. Unused commitment fees are payable quarterly at the annual rate of one-quarter to one-half of one percent on the revolving credit facility, based on the leverage ratio defined by the agreement. As of December 31, 2004, the Company had no outstanding balance under the revolving credit facility, and as of June 30, 2005, the Company had a balance outstanding of \$16 million and \$44 million of additional credit immediately available thereunder. As of June 30, 2005, seven OSVs and four ocean-going tugs and associated personally collateralized the revolving credit facility.

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The revolving credit facility and indenture impose certain operating and financial 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.

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

	December 31,	
	2003	2004
Revolving credit facility	\$ 40,000	\$
10.625% senior notes due 2008, net of original issue discount of \$2,323 and \$97, respectively	172,677	15,449
6.125% senior notes due 2014		225,000
	<u>212,677</u>	<u>240,449</u>
Less current maturities		15,449
	<u>\$ 212,677</u>	<u>\$ 225,000</u>

Annual maturities of debt during each year ending December 31, are as follows (in thousands):

2005	\$ 15,449
2006	
2007	
2008	
2009	
Thereafter	225,000
	<u>\$ 240,449</u>

7. Stockholders Equity**Preferred Stock**

The Company's certificate of incorporation authorizes 5.0 million shares of preferred stock. The Board of Directors has the authority to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the Company's shareholders.

Stockholder Rights Plan

On June 18, 2003, the Company's Board of Directors implemented a stockholder rights plan, as amended on March 5, 2004 and September 3, 2004, declaring a dividend of one right for each outstanding share of common stock to stockholders of record on June 18, 2003. One right will also attach to each share of common stock issued after June 28, 2003. The rights become exercisable, and transferable apart from the Company's common stock, 10 business days following a public announcement that a person or group has acquired beneficial ownership of, or has commenced a tender or exchange offer for, 10% or more of the Company's common stock.

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The rights have anti-takeover effects, causing substantial dilution to a person or group who attempts to acquire the Company without the approval of the Board of Directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire the Company even if such acquisition may be favorable to the interests of the Company's stockholders. Because the Board of Directors can redeem the rights or approve certain offers, the rights should not interfere with any merger or other business combination approved by the Company's Board of Directors.

Private Placement of Common Stock

In May 2003, the Company commenced a private placement of its common stock to accredited investors to raise gross proceeds of approximately \$30 million, including \$6 million of common stock, or 0.5 million shares, issued to the seller as partial consideration for the June 26, 2003 acquisition of five deepwater OSVs. The private placement was completed in July 2003 with 1.9 million shares distributed for gross cash proceeds of approximately \$24 million. Costs incurred for the private placement were approximately \$0.7 million and were recorded as a reduction of additional paid-in capital.

Initial Public Offering

On March 31, 2004, the Company completed an initial public offering of 6 million shares of its common stock at \$13.00 per share, for total gross proceeds of approximately \$78 million. On April 28, 2004, the Company issued an additional 0.1 million shares of its common stock pursuant to the exercise by the underwriters of the initial public offering of an option to purchase additional shares, which resulted in incremental gross proceeds to the Company of approximately \$1.6 million. The Company used the net proceeds of the aggregate offering of approximately \$73 million to repay the \$40 million balance then-outstanding under its revolving credit facility on March 31, 2004 and, from March 31, 2004 to December 31, 2004, used approximately \$33 million of the net proceeds to fund expenditures related to its tank barge new build program, the acquisition and retrofit of two ocean-going tugs, the acquisition of one fast supply vessel, and for general corporate purposes. The Company's shares of common stock trade on the New York Stock Exchange under the symbol HOS .

8. Incentive Compensation Plan

SFAS No. 123 Accounting for Stock-Based Compensation established financial accounting and reporting standards for stock-based compensation plans. The Company's incentive compensation plan includes all arrangements by which employees and directors receive shares of stock or other equity instruments of the Company, or the Company incurs liabilities to employees or directors in amounts based on the price of the stock. SFAS 123 defines a fair-value-based method of accounting for stock-based compensation. However, SFAS 123 also allows an entity to continue to measure stock-based compensation cost using the intrinsic value method of APB Opinion No. 25, Accounting for Stock Issued to Employees . Entities electing to retain the accounting prescribed in APB 25 must make pro forma disclosures of net income assuming dilution as if the fair-value-based method of accounting defined in SFAS 123 had been applied. The Company retained the provisions of APB 25 for expense recognition purposes. Under APB 25, where the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

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The Company established an incentive compensation plan which provides the Company with the ability to grant options for a maximum of 3.5 million shares of common stock. The purchase price of the stock subject to each option is determined by the Board of Directors of the Company and cannot be less than the fair market value of the stock at the date of grant. During 2002, 2003 and 2004, options for approximately 45,000, 6,000 and 168,000 shares, respectively, were exercised. All options granted expire five to ten years after the date of grant, have an exercise price equal to or greater than the estimated market price of the Company's stock at the date of grant and vest over a two- to four-year period.

The following summarizes the option activity in the plan during 2002, 2003 and 2004 (in thousands, except for per share data):

	2002		2003		2004	
	Number of Options Outstanding	Average Price Per Share	Number of Options Outstanding	Average Price Per Share	Number of Options Outstanding	Average Price Per Share
Outstanding, beginning of year	696	\$ 6.28	773	\$ 6.40	925	\$ 7.45
Granted	133	6.63	209	11.30	380	13.88
Exercised	(45)	4.88	(6)	6.63	(168)	6.55
Cancelled	(11)	6.63	(51)	7.15	(19)	9.96
Outstanding, end of year	773	\$ 6.40	925	\$ 7.45	1,118	\$ 9.73
Exercisable, end of year	363		455		572	
Weighted-average fair value of options granted during the year		\$ 2.10		\$ 3.55		\$ 4.60

The following is a summary of outstanding stock options at December 31, 2004 (in thousands, except for years and per share data):

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of exercise prices:					
\$ 4.63 to \$ 6.63	550	6.19	\$ 6.35	508	\$ 6.33
\$11.20 to \$13.83	558	8.83	12.93	64	11.29
\$15.80 to \$19.30	10	9.78	16.81		
Total	1,118	7.54	9.73	572	6.88

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If compensation cost for the Company's stock options had been determined based on the fair value at the grant date consistent with the method under SFAS 123, the Company's net income (loss) for the years ended December 31, 2002, 2003 and 2004 would have been as indicated below (in thousands, except per share data):

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
	(Unaudited)				
Net income (loss):					
As reported	\$ 11,647	\$ 11,190	\$ (2,483)	\$ 4,268	\$ 12,961
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(217)	(281)	(671)	(424)	(540)
Pro forma	\$ 11,430	\$ 10,909	\$ (3,154)	\$ 3,844	\$ 12,421
Basic earnings (loss) per common share:					
As reported	\$ 0.96	\$ 0.84	\$ (0.13)	\$ 0.24	\$ 0.62
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(0.02)	(0.02)	(0.03)	(0.02)	(0.03)
Pro forma	\$ 0.94	\$ 0.82	\$ (0.16)	\$ 0.22	0.59
Diluted earnings (loss) per common share:					
As reported	\$ 0.94	\$ 0.82	\$ (0.13)	\$ 0.23	\$ 0.61
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(0.02)	(0.02)	(0.03)	(0.02)	(0.03)
Pro forma	\$ 0.92	\$ 0.80	\$ (0.16)	\$ (0.21)	\$ 0.58

The fair value of the options granted under the Company's stock option plan during each of the three years ended December 31, 2002, 2003 and 2004, was estimated using the Black-Scholes pricing model using the minimum value method whereby volatility is not considered. The other assumptions used were: an average interest rate of 3.83%, 3.84%, 4.05%, 4.29% and 3.94% for the three years ended December 31, 2004 and six months ended June 30, 2004 and 2005, respectively, and an expected life of five to seven years with no expected dividends for each year or period.

Table of Contents**9. Income Taxes**

The net long-term deferred tax liabilities in the accompanying consolidated balance sheets include the following components (in thousands):

	December 31,	
	2003	2004
Deferred tax liabilities:		
Fixed assets	\$ 34,927	\$ 53,606
Deferred charges and other liabilities	2,406	3,451
Total deferred tax liabilities	37,333	57,057
Deferred tax assets:		
Net operating loss carryforwards	(13,666)	(34,708)
Allowance for doubtful accounts	(165)	(148)
Other	(30)	(49)
Total deferred tax assets	(13,861)	(34,905)
Valuation allowance	95	95
Total deferred tax liabilities, net	\$ 23,567	\$ 22,247

The components of the income tax expense (benefit) follow (in thousands):

	Year Ended December 31,		
	2002	2003	2004
Current tax expense	\$	\$	\$
Deferred tax expense (benefit)	7,139	6,858	(1,320)
Total	\$ 7,139	\$ 6,858	\$ (1,320)

At December 31, 2004, the Company had federal tax net operating loss carryforwards of approximately \$95 million. The carryforward benefit from the federal tax net operating loss carryforwards begins to expire in 2018. The Company has a state tax net operating loss carryforward of approximately \$1.5 million related to one state tax jurisdiction. This carryforward can only be utilized if the Company generates taxable income in the appropriate tax jurisdiction. A valuation allowance of approximately \$0.1 million has been established to fully offset the deferred tax asset related to the state tax jurisdiction.

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The following table reconciles the difference between the Company's income tax provision calculated at the federal statutory rate and the actual income tax provision (in thousands):

	Year Ended December 31,		
	2002	2003	2004
Statutory rate	\$ 6,575	\$ 6,317	\$ (1,331)
State taxes	275	235	(49)
Non-deductible expense	95	47	57
Foreign taxes and other	194	259	3
	<u>\$ 7,139</u>	<u>\$ 6,858</u>	<u>\$ (1,320)</u>

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Table of Contents**10. Commitments and Contingencies*****Vessel Construction***

At December 31, 2004, the Company was committed under vessel construction contracts with two shipyards for the total of five double-hulled tank barges two 135,000-barrel barges and three 110,000-barrel barges. As of December 31, 2004, the remaining amount expected to be incurred to complete construction with respect to the five barges was approximately \$53.2 million. The Company is obligated under the terms of these contracts to remit funds to the shipyards based on vessel construction milestones, which are subject to change during vessel construction.

Operating Leases

The Company is obligated under certain operating leases for marine vessels, office space and vehicles. The Covington facility lease, which commenced on September 1, 2003, provides for an initial term of five years with two five-year renewal options. The Brooklyn facility lease, which expires on March 31, 2006, provides for an initial term of five years with five one-year renewal options.

Future minimum payments under noncancelable leases for years subsequent to 2004 follow (in thousands):

<u>Year Ended December 31,</u>	
2005	\$ 1,074
2006	446
2007	351
2008	259
2009	
	<u>\$ 2,130</u>

In addition, the Company leases marine vessels used in its operations under month-to-month operating lease agreements. Total rent expense related to leases was approximately \$1.6 million; \$1.0 million and \$1.7 million during the years ended December 31, 2002, 2003 and 2004, respectively.

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 or results of operations.

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Deferred charges include the following (in thousands):

	Year Ended December 31,			June 30,
	2002	2003	2004	2005
				(Unaudited)
Deferred financing costs, net of accumulated amortization of \$1,549, \$2,702, \$7,487 and \$694 respectively	\$ 6,019	\$ 5,019	\$ 5,616	\$ 5,735
Deferred drydocking costs, net of accumulated amortization of \$4,352, \$5,330, \$6,557 and \$7,416 respectively	3,261	6,175	8,978	9,089
Deferred equity offering costs and other	833	1,122	269	272
Total	\$ 10,113	\$ 12,316	\$ 14,863	\$ 15,096

12. Related Party Transactions

During 2003 and 2004, the Company was committed under vessel construction contracts to construct OSVs and double-hulled tank barges, and during 2002, to construct OSVs with a shipyard affiliated with a former member of the Company's Board of Directors. The Company incurred approximately \$21.1 million, \$25.2 million, and \$16.3 million, respectively, of construction costs related to such vessels.

During 2004 the Company recorded approximately \$0.8 million of OSV revenue and had receivables of approximately \$0.3 million as of December 31, 2004 from a customer, of which a member of the Company's Board of Directors is Chairman of the Board of Directors, Chief Executive Officer and President.

13. Major Customers

In the years ended December 31, 2002, 2003 and 2004, revenues from the following customers exceeded 10% of total revenues:

Year Ended December 31,			Six Months Ended June 30,	
2002	2003	2004	2004	2005

	(Unaudited)				
Customer A (1)	11%				
Customer B (2)	24%	23%	22%	27%	21%

(1) Offshore supply vessel segment.

(2) Tug and tank barge segment.

14. Segment Information

The Company provides marine transportation services through two business segments. The Company operates new generation offshore supply vessels in the U.S. Gulf of Mexico, Trinidad and Mexico through its offshore supply vessel segment. The offshore supply vessels principally support complex exploration and production projects by transporting cargo to offshore drilling rigs and production facilities and provide support for specialty services. The tug and tank barge segment primarily operates ocean-going tugs and tank barges in the northeastern United States and in Puerto Rico. The ocean-going tugs and tank barges provide coastwise transportation of refined and bunker grade petroleum products from one port to another. The following shows reportable segment information for the years ended December 31, 2002, 2003 and 2004, and for the unaudited interim periods ended June 30, 2004 and 2005, reconciled to consolidated totals and prepared on the same basis as the Company's consolidated financial statements (in thousands).

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	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	
Operating Revenues:					
Offshore supply vessels					
Domestic	\$ 43,702	\$ 50,044	\$ 59,886	\$ 26,269	\$ 37,955
Foreign	2,676	12,358	15,407	6,650	12,459
	<u>46,378</u>	<u>62,402</u>	<u>75,293</u>	<u>32,919</u>	<u>50,414</u>
Tugs and tank barges					
Domestic	36,020	43,206	50,465	25,631	24,841
Foreign(1)	10,187	5,205	6,503	3,085	3,731
	<u>46,207</u>	<u>48,411</u>	<u>56,968</u>	<u>28,716</u>	<u>28,572</u>
Total	\$ 92,585	\$ 110,813	\$ 132,261	\$ 61,635	\$ 78,986
Operating Expenses:					
Offshore supply vessels	\$ 14,367	\$ 22,786	\$ 29,724	\$ 13,562	\$ 16,616
Tugs and tank barges	21,970	24,019	28,796	14,485	14,852
Total	\$ 36,337	\$ 46,805	\$ 58,520	\$ 28,047	\$ 31,468
Depreciation:					
Offshore supply vessels	\$ 5,462	\$ 8,815	\$ 11,573	\$ 5,686	\$ 6,210
Tugs and tank barges	4,889	5,578	5,835	2,870	3,001
Total	\$ 10,351	\$ 14,393	\$ 17,408	\$ 8,556	\$ 9,211
Amortization:					
Offshore supply vessels	\$ 368	\$ 565	\$ 1,303	\$ 506	\$ 967
Tugs and tank barges	1,577	2,632	4,424	1,765	2,429