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

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number 001-32108

Hornbeck Offshore Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**103 NORTHPARK BOULEVARD, SUITE 300
COVINGTON, LA 70433**
(Address of Principal Executive Offices) (Zip Code)

(985) 727-2000
(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The total number of shares of common stock, par value \$.01 per share, outstanding as of July 31, 2007 was 25,898,780.

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PART I—FINANCIAL INFORMATION

Item 1—Financial Statements

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	June 30, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 428,851	\$ 474,261
Accounts receivable, net of allowance for doubtful accounts of \$784 and \$745, respectively	48,705	46,133
Other current assets	8,995	6,593
Total current assets	<u>486,551</u>	<u>526,987</u>
Property, plant and equipment, net	636,773	531,951
Deferred charges, net	35,837	31,554
Other assets	7,871	7,888
Total assets	<u>\$ 1,167,032</u>	<u>\$ 1,098,380</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,991	\$ 18,472
Accrued interest	2,417	2,314
Accrued payroll and benefits	4,950	7,859
Deferred revenue	8,644	7,693
Other accrued liabilities	2,314	1,388
Total current liabilities	<u>42,316</u>	<u>37,726</u>
Long-term debt, net of original issue discount of \$479 and \$503, respectively.	549,521	549,497
Deferred tax liabilities, net	72,493	54,480
Other liabilities	1,450	1,804
Total liabilities	<u>665,780</u>	<u>643,507</u>
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, 25,687 and 25,561 shares issued and outstanding, respectively	257	255
Additional paid-in capital	328,142	321,909
Retained earnings	172,676	132,558
Accumulated other comprehensive income	177	151
Total stockholders' equity	<u>501,252</u>	<u>454,873</u>
Total liabilities and stockholders' equity	<u>\$ 1,167,032</u>	<u>\$ 1,098,380</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Revenues	\$ 75,071	\$ 70,695	\$143,161	\$131,751
Costs and expenses:				
Operating expenses	27,520	22,729	54,625	44,908
Depreciation	4,940	6,046	9,747	11,855
Amortization	2,877	1,669	5,258	3,349
General and administrative expenses	7,651	7,854	15,098	14,694
	<u>42,988</u>	<u>38,298</u>	<u>84,728</u>	<u>74,806</u>
Gain on sale of assets	1,852	328	1,842	328
Operating income	33,935	32,725	60,275	57,273
Other income (expense):				
Interest income	5,772	3,573	11,780	6,684
Interest expense	(4,270)	(4,450)	(9,175)	(8,804)
Other income, net	6	21	11	31
	<u>1,508</u>	<u>(856)</u>	<u>2,616</u>	<u>(2,089)</u>
Income before income taxes	35,443	31,869	62,891	55,184
Income tax expense	(12,806)	(11,577)	(22,773)	(20,043)
Net income	<u>\$ 22,637</u>	<u>\$ 20,292</u>	<u>\$ 40,118</u>	<u>\$ 35,141</u>
Basic earnings per common share	<u>\$ 0.88</u>	<u>\$ 0.75</u>	<u>\$ 1.57</u>	<u>\$ 1.29</u>
Diluted earnings per common share	<u>\$ 0.85</u>	<u>\$ 0.73</u>	<u>\$ 1.52</u>	<u>\$ 1.27</u>
Weighted average basic shares outstanding	<u>25,639</u>	<u>27,201</u>	<u>25,611</u>	<u>27,180</u>
Weighted average diluted shares outstanding	<u>26,523</u>	<u>27,711</u>	<u>26,362</u>	<u>27,680</u>

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	Six Months Ended	
	June 30,	
	2007	2006
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 40,118	\$ 35,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,747	11,855
Amortization	5,258	3,349
Stock-based compensation expense	3,434	2,675
Provision for bad debts	39	265
Deferred tax expense	18,604	20,043
Amortization of financing costs	976	423
Gain on sale of assets	(1,842)	(328)
Equity income from investment	(73)	(35)
Changes in operating assets and liabilities:		
Accounts receivable	(2,685)	(8,797)
Other current assets	(2,433)	(8,687)
Deferred drydocking charges	(10,475)	(4,978)
Accounts payable	7,647	1,306
Accrued liabilities and other liabilities	(1,313)	1,502
Accrued interest	103	(11)
Net cash provided by operating activities	<u>67,105</u>	<u>53,723</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for MPSV program	(64,162)	(6,237)
Costs incurred for OSV newbuild program #4	(17,368)	(5,277)
Costs incurred for TTB newbuild program #1	—	(5,257)
Costs incurred for TTB newbuild program #2	(29,250)	(3,087)
Acquisition and retrofit of AHTS vessels	—	(2,384)
Net proceeds from the sale of assets	5,883	1,082
Vessel capital expenditures	(6,519)	(2,878)
Non-vessel capital expenditures	(2,508)	(2,743)
Net cash used in investing activities	<u>(113,924)</u>	<u>(26,781)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Deferred financing costs	(218)	(94)
Net cash proceeds from other shares issued	1,602	1,091
Net cash provided by financing activities	<u>1,384</u>	<u>997</u>
Effects of exchange rate changes on cash	25	9
Net increase (decrease) in cash and cash equivalents	(45,410)	27,948
Cash and cash equivalents at beginning of period	474,261	271,739
Cash and cash equivalents at end of period	<u>\$ 428,851</u>	<u>\$299,687</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Cash paid for interest	<u>\$ 11,332</u>	<u>\$ 9,275</u>
Cash paid for taxes	<u>\$ 3,794</u>	<u>\$ —</u>

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

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The quarterly financial statements should be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the "Company") for the year ended December 31, 2006. The results of operations for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. Certain amounts reported in prior periods have been reclassified to conform to the 2007 presentation.

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

2. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	\$ 22,637	\$ 20,292	\$ 40,118	\$ 35,141
Weighted average number of shares of common stock outstanding	25,639	27,201	25,611	27,180
Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)(3)	884	510	751	500
Adjusted weighted average number of shares of common stock outstanding	26,523	27,711	26,362	27,680
Earnings per common share:				
Basic	\$ 0.88	\$ 0.75	\$ 1.57	\$ 1.29
Diluted	\$ 0.85	\$ 0.73	\$ 1.52	\$ 1.27

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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- (1) Stock options representing rights to acquire 150 and 3 shares of common stock for the three months ended June 30, 2007 and 2006, respectively, and 322 and 3 shares of common stock for the six months ended June 30, 2007 and 2006, respectively, were excluded from the calculation of diluted earnings per share, because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common stock for the period.
 - (2) Dilutive restricted stock is expected to fluctuate from quarter to quarter depending on the relative stock price performance ranking among the Company's peers and pre-determined internal target performance criteria. See Note 5 for further information regarding the Company's restricted stock awards.
 - (3) As of June 30, 2007, the 1.625% convertible senior notes were not dilutive, as the average price of the Company's stock was less than the effective conversion price of such notes. See Note 4 for further information.

3. Recent Accounting Pronouncements

On January 1, 2007 the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109", or FIN 48. As a result of the implementation of FIN 48, the Company did not record any significant changes to its liability for unrecognized income tax benefits. As of January 1, 2007 the Company had approximately \$0.4 million of unrecognized income tax benefits, of which approximately \$0.3 million would affect the effective tax rate if recognized. As of June 30, 2007, the Company had \$0.4 million of unrecognized tax benefits. The Company accounts for interest and penalties relating to uncertain tax positions in the current period income statement, as necessary. The 2003, 2004, 2005, and 2006 tax years remain subject to examination by various federal, state and foreign tax jurisdictions.

In September 2006, the Financial Accounting Standards Board, or FASB, issued FASB Statement No. 157, "Fair Value Measurements", or SFAS 157, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on our future operating results.

4. Long-Term Debt

Revolving Credit Facility

On September 27, 2006, the Company entered into a new five-year senior secured revolving credit facility. The revolving credit facility has a borrowing base of \$100.0 million and matures in September 2011. As of June 30, 2007, the Company had no balance outstanding under the revolving credit facility and had \$100.0 million of credit immediately available under such facility. As of that date, eight offshore supply vessels, or OSVs, and four ocean-going tugs and associated personality collateralized the new facility.

Senior Notes

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

Convertible Senior Notes

On November 13, 2006, the Company completed a private placement of \$250.0 million of its 1.625% convertible senior unsecured notes due 2026, or the convertible notes. The convertible notes initially bear interest at a fixed rate of 1.625% per year, declining to 1.375% beginning on November 15, 2013, payable semi-annually on May 15 and November 15 of each year. The convertible notes are convertible into shares of the Company's common stock based on the applicable conversion rate only under the occurrence of certain events as defined in the indenture governing such convertible notes, or the 2006 convertible notes indenture. The initial conversion rate of 20.6260 shares of common stock per \$1,000 principal amount of convertible notes corresponds to a conversion price of approximately \$48.48 per share, which was a 37.5% premium over the closing price of the Company's common shares on The New York Stock Exchange on November 7, 2006 of \$35.26. As of June 30, 2007, the Company's closing share price was \$38.76.

In connection with the sale of the convertible notes, the Company entered into convertible note hedge transactions with respect to its common stock with Jefferies International Limited, Bear, Stearns International Limited and AIG-FP Structured Finance (Cayman) Limited, or the counterparties. Each of the convertible note hedge transactions involves the purchase of call options with exercise prices equal to the conversion price of the convertible notes, and are intended to mitigate dilution to the Company's stockholders upon the potential future conversion of the convertible notes. Under the convertible note hedge transactions, the counterparties are required to deliver to the Company the number of shares of the Company's common stock that the Company is obligated to deliver to the holders of the convertible notes with respect to any such conversion. The convertible note hedge transactions cover approximately the same number of shares of the Company's common stock underlying the convertible notes, subject to customary anti-dilution adjustments, at a strike price of approximately \$48.48 per share of common stock. The convertible note hedge transactions expire at the close of trading on November 15, 2013, which is the date that the

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

convertible notes are first putable by the convertible noteholders, although the counterparties will have ongoing obligations with respect to convertible notes properly converted on or prior to that date of which the counterparty has been timely notified.

The Company also entered into separate warrant transactions, whereby the Company sold to the counterparties warrants to acquire approximately the same number of shares of its common stock underlying the convertible notes, subject to customary anti-dilution adjustments, at a strike price of \$62.59 per share of common stock, which represented a 77.5% premium over the closing price of the Company's shares of common stock on November 7, 2006. If the counterparties exercise the warrants, the Company will have the option to settle in cash or shares of its common stock equal to the difference between the then market price and strike price. The convertible note hedge and warrant transactions are separate and legally distinct instruments that bind the Company and the counterparties and have no binding effect on the holders of the convertible notes.

In February 2007, the Company filed a registration statement on Form S-3 and subsequently filed 424(b) prospectus supplements under the Securities Act covering resales by the selling security holders named therein of the convertible senior notes and the shares of the Company's common stock issuable upon conversion of such notes.

The credit agreement governing the revolving credit facility and the 2004 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.

Interest expense excludes capitalized interest related to the construction or conversion of vessels in the approximate amount of \$2.0 million for the second quarter of 2007, \$0.4 million for the second quarter of 2006, \$3.3 million for the first six months of 2007 and \$0.9 million for the first six months of 2006.

5. Stock-Based Compensation

Incentive Compensation Plan

The Company has an incentive compensation plan covering a maximum of 3.5 million shares of common stock that allows the Company to grant stock options, restricted stock awards and restricted stock unit awards, or collectively restricted stock, and stock appreciation rights to employees and directors. Effective January 1, 2006, the Company adopted FAS No. 123 (revised 2004), "Share-Based Payment," or FAS 123R, using the modified prospective method. Prior to the adoption of FAS 123R, the Company accounted for stock option grants in accordance with APB 25, using the intrinsic value method, and accordingly, no compensation expense was recorded for stock option grants for periods prior to 2006.

During the six months ended June 30, 2007, the Company granted performance-based and time-based restricted stock unit awards, or RSUs, to directors and employees. There

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

have been no stock options granted to such directors and employees in 2007. The Company granted two types of performance-based RSUs. The first type, which was granted to key executives of the Company, calculates the shares to be received based on the Company's performance relative to a peer group, as defined by the RSU agreements governing such awards. Performance is measured by the change in the Company's stock price measured against the peer group during a measurement period, which is generally three years. The actual number of shares that could be received by the award recipients can range from 0% to 200% of the Company's base share awards depending on the Company's performance ranking relative to the peer group. The second type of performance-based RSU, which was granted to non-executive shore-side employees and certain named executive officers, calculates the shares to be received based on the Company's achievement of certain performance criteria over a three year period as defined by the RSU agreement governing such awards. The actual number of shares that could be received by these award recipients can range from 0% to 100% of the Company's base share awards depending on the number of performance goals attained by the Company.

Compensation expense related to restricted stock is recognized over the period the restrictions lapse, from one to three years. The fair value of the Company's performance-based restricted stock, which is determined using a binomial lattice model, is applied to the total shares that are expected to fully vest and is amortized over the vesting period based on relative performance compared to peers or the Company's internal performance measured against pre-determined criteria, as applicable. The compensation expense related to time-based restricted stock unit awards, which is amortized over a vesting period from one to three years, is determined based on the market price of the Company's stock on the date of grant applied to the total shares that are expected to fully vest.

For the three months ended June 30, 2007, the Company's income before taxes, net income and basic and diluted earnings per share included \$1.7 million, \$1.1 million, \$0.04 per share and \$0.04 per share of stock-based compensation expense charges, respectively. For the six months ended June 30, 2007, the Company's income before taxes, net income and basic and diluted earnings per share included \$3.4 million, \$2.2 million, \$0.09 per share and \$0.08 per share of stock-based compensation expense charges, respectively. In addition, the Company capitalized approximately \$0.3 million and \$0.6 million of stock-based compensation expense as part of its ongoing newbuild construction programs and general corporate projects for the three and six months ended June 30, 2007, respectively.

6. 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.

On January 18, 2007, Anthony Caiafa filed an action in the United States District Court for the Eastern District of Louisiana against Hornbeck Offshore Services, Inc. and Todd M. Hornbeck,

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Chairman of the Board, President, and Chief Executive Officer. On January 24, 2007, Thomas Schedler filed a similar action in the United States District Court for the Eastern District of Louisiana against Hornbeck Offshore Services, Inc., Todd M. Hornbeck and James O. Harp, Jr., Executive Vice President and Chief Financial Officer. On January 26, 2007, Michael D. Fontenelle filed another similar action in the United States District Court for the Eastern District of Louisiana against Hornbeck Offshore Services, Inc. and Todd M. Hornbeck. On February 8, 2007, Oakmont Capital Management, LLC filed a similar action in the United States District Court for the Eastern District of Louisiana against Hornbeck Offshore Services, Inc., Todd M. Hornbeck, James O. Harp, Jr. and Carl G. Annessa, Executive Vice President and Chief Operating Officer. These lawsuits purport to be filed as a class action on behalf of the plaintiffs and other similarly situated purchasers of the Company's securities from November 1, 2006 to January 10, 2007. In their complaints, the plaintiffs allege that Hornbeck Offshore Services, Inc. and the other defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, by allegedly making false and misleading statements, and/or by omitting to state material facts necessary to make the statements not misleading, in connection with its forward earnings guidance and its January 10, 2007 announcement of preliminary financial results for the fourth quarter of 2006 that fell short of such guidance and indicated a reduction in 2007 guidance. The Company and such officers deny these allegations and believe that these actions are without merit. The Company intends to defend these actions vigorously. However, the Company cannot predict whether it will prevail in the actions or estimate the amount of damages that the Company might incur. The Company is also unable to estimate any reimbursement that it may receive from insurance policies in the event that the Company incurs any damages or costs in connection with these actions.

The Company insures against losses relating to its vessels, pollution and third party liabilities, including claims by employees under Section 27 of the Merchant Marine Act of 1920, or the Jones Act. Third party liabilities and pollution claims that relate to vessel operations are covered by the Company's entry in a mutual protection and indemnity association, or P&I Club. In March 2007, the terms of entry for both of the Company's segments contained an annual aggregate deductible, or AAD, for which the Company remains responsible, while the P&I Club is responsible for all applicable amounts that exceed the AAD, after payment by the Company of an additional individual claim deductible. The Company provides reserves for those portions of the AAD and any individual claim deductibles for which the Company remains responsible by using an estimation process that considers Company-specific and industry data, as well as management's experience, assumptions and consultation with outside counsel. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise its estimates. Such revisions in estimates of the potential liability could materially impact the Company's results of operations, financial position or cash flows. As of June 30, 2007, the Company's claims incurred under its P&I Club policies have not exceeded the AAD for the current policy year. In addition, the Company joined a new P&I Club during 2007 and has committed a letter of credit for approximately \$0.3 million to its former P&I Club to fund possible future claims for the policy year that expires in February 2008.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Segment Information

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table shows reportable segment information for the three and six months ended June 30, 2007 and 2006, reconciled to consolidated totals and prepared on the same basis as the Company's unaudited consolidated financial statements (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Operating revenues:				
Offshore supply vessels				
Domestic	\$ 41,734	\$ 37,901	\$ 77,736	\$ 71,215
Foreign	6,875	6,249	12,015	11,435
	<u>48,609</u>	<u>44,150</u>	<u>89,751</u>	<u>82,650</u>
Tugs and tank barges				
Domestic	24,325	24,595	48,696	45,206
Foreign (1)	2,137	1,950	4,714	3,895
	<u>26,462</u>	<u>26,545</u>	<u>53,410</u>	<u>49,101</u>
Total	<u>\$ 75,071</u>	<u>\$ 70,695</u>	<u>\$ 143,161</u>	<u>\$ 131,751</u>
Operating expenses:				
Offshore supply vessels	\$ 15,620	\$ 13,476	\$ 30,945	\$ 26,227
Tugs and tank barges	11,900	9,253	23,680	18,681
Total	<u>\$ 27,520</u>	<u>\$ 22,729</u>	<u>\$ 54,625</u>	<u>\$ 44,908</u>
Depreciation:				
Offshore supply vessels	\$ 2,671	\$ 3,516	\$ 5,297	\$ 6,933
Tugs and tank barges	2,269	2,530	4,450	4,922
Total	<u>\$ 4,940</u>	<u>\$ 6,046</u>	<u>\$ 9,747</u>	<u>\$ 11,855</u>
Amortization:				
Offshore supply vessels	\$ 1,408	\$ 742	\$ 2,535	\$ 1,398
Tugs and tank barges	1,469	927	2,723	1,951
Total	<u>\$ 2,877</u>	<u>\$ 1,669</u>	<u>\$ 5,258</u>	<u>\$ 3,349</u>
General and administrative expenses:				
Offshore supply vessels	\$ 3,755	\$ 3,694	\$ 7,469	\$ 6,890
Tugs and tank barges	3,896	4,160	7,629	7,804
Total	<u>\$ 7,651</u>	<u>\$ 7,854</u>	<u>\$ 15,098</u>	<u>\$ 14,694</u>
Gain on sale of assets:				
Offshore supply vessels	\$ 1,852	\$ —	\$ 1,842	\$ —
Tugs and tank barges	—	328	—	328
Total	<u>\$ 1,852</u>	<u>\$ 328</u>	<u>\$ 1,842</u>	<u>\$ 328</u>
Operating income:				
Offshore supply vessels	\$ 27,007	\$ 22,722	\$ 45,347	\$ 41,202
Tugs and tank barges	6,928	10,003	14,928	16,071
Total	<u>\$ 33,935</u>	<u>\$ 32,725</u>	<u>\$ 60,275</u>	<u>\$ 57,273</u>

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Deferred drydocking charges:				
Offshore supply vessels	\$ 1,889	\$ 2,446	\$ 4,832	\$ 3,186
Tugs and tank barges	2,493	1,650	5,643	1,792
Total	<u>\$ 4,382</u>	<u>\$ 4,096</u>	<u>\$ 10,475</u>	<u>\$ 4,978</u>
Capital expenditures:				
Offshore supply vessels	\$ 48,150	\$ 10,220	\$ 87,783	\$ 17,567
Tugs and tank barges	15,472	4,945	30,059	9,288
Corporate	1,375	348	1,965	1,008
Total	<u>\$ 64,997</u>	<u>\$ 15,513</u>	<u>\$ 119,807</u>	<u>\$ 27,863</u>
Identifiable assets:				
Offshore supply vessels			\$ 895,547	\$ 861,498
Tugs and tank barges			248,915	215,935
Corporate			22,570	20,947
Total			<u>\$ 1,167,032</u>	<u>\$ 1,098,380</u>
Long-lived assets:				
Offshore supply vessels				
Domestic			\$ 358,172	\$ 281,244
Foreign (2)			60,549	55,271
			<u>418,721</u>	<u>336,515</u>
Tugs and tank barges				
Domestic			\$ 206,353	186,491
Foreign (1)(2)			5,481	4,242
			<u>211,834</u>	<u>190,733</u>
Corporate			6,218	4,703
Total			<u>\$ 636,773</u>	<u>\$ 531,951</u>

- (1) Included are amounts applicable to the Company's TTB operations in Puerto Rico. Puerto Rico is considered a possession of the United States and, therefore, the Jones Act and U.S. environmental laws and regulations apply to vessels operating in Puerto Rican waters.
- (2) The Company's vessels conduct operations in domestic and international areas. Vessels will routinely move to and from international and domestic operating areas. As these assets are highly mobile, the long-lived assets reflected above represent the assets that were present in international areas as of June 30, 2007 and December 31, 2006, respectively.

8. Subsequent Event—Pending Acquisition of OSVs

On July 20, 2007, the Company entered into a definitive asset purchase agreement to acquire 20 OSVs and their related business from certain affiliates of Nabors Industries, Ltd., or Nabors, for \$186.0 million in cash, plus the cost of any fuel inventory on such vessels. The Company also agreed to purchase one newbuild 285 foot DP-2 class vessel currently under construction with an anticipated fourth quarter 2008 delivery. The expected cost of this vessel,

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

prior to the allocation of construction period interest, is approximately \$34.0 million, of which approximately \$7.3 million will be paid to Nabors at closing. The 20 acquired vessels, or the Sea Mar Fleet, are comprised of ten 200 class new generation OSVs and ten conventional OSVs, with fifteen currently operating in the GoM, three operating offshore Mexico and two operating in Qatar. The transaction is subject to customary conditions including third party consents and regulatory approvals and expected to close in early August 2007.

The purchase price allocation is currently being evaluated and the final calculation is expected to be completed no later than August 8, 2008. The Company does not expect to record any goodwill as a result of the acquisition. As of July 20, 2007, the purchase price was allocated to the acquired assets based on the estimated fair values as follows (in thousands):

Property, plant and equipment	\$ 186,000
Construction work in progress	7,300
Inventory	<u>1,200</u>
Purchase price	<u>\$ 194,500</u>

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited consolidated financial statements and notes to unaudited consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2006. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements. See "Forward Looking Statements" for additional discussion regarding risks associated with forward-looking statements. In this Quarterly Report on Form 10-Q, "company," "we," "us," "our" or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. The term "new generation," when referring to offshore supply vessels, or OSVs, means 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.

General

We own and operate a fleet of 25 technologically advanced, new generation OSVs. We also own two former coastwise sulfur tankers that are being converted into new generation multi-purpose supply vessels, or MPSVs. In addition, we are currently constructing 13 new generation OSVs and have recently signed a contract with a foreign shipyard for the construction of one new generation MPSV. Currently, 19 of our OSVs are operating in domestic waters, 15 of which are operating in the U.S. Gulf of Mexico, or GoM, and four are operating along other U.S. coastlines. Of our six OSVs currently working in international waters, four are operating offshore Trinidad and two are operating offshore Mexico. In April 2007, we sold our only new generation fast supply vessel.

In July 2007, we entered into a definitive asset purchase agreement to acquire 20 OSVs and their related business from certain affiliates of Nabors Industries, Ltd., or Nabors. We also agreed to purchase one new generation OSV currently under construction with an anticipated fourth quarter 2008 delivery. The 20 vessels are comprised of ten 200 class new generation OSVs and ten conventional OSVs, with fifteen currently operating in the GoM, three operating offshore Mexico and two operating in Qatar. The transaction is subject to customary conditions including third party consents and regulatory approvals and expected to close in early August 2007.

In addition, we own and operate 14 ocean-going tugs and 18 ocean-going tank barges, six of which are double-hulled. We also own three ocean-going tugs that are being retrofitted for service in our petroleum transportation segment. One of our newly retrofitted ocean-going tugs, the *Michigan Service*, was placed in service in July 2007 under our second TTB newbuild program. In addition, we are currently constructing three double-hulled tank barges under that program. Currently, nine of our tank barges are operating in the northeastern United States, primarily New York Harbor, five barges are operating in the GoM, two barges are operating in the Great Lakes, and two barges are operating in Puerto Rico.

Offshore Supply Vessels

We have developed, through a series of three 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 anchor-handling towing supply, or AHTS, vessels, the commencement of our MPSV program and fourth OSV newbuild program, the acquisition of a shore-based port facility in Port Fourchon, Louisiana and the pending acquisition of vessels from Nabors.

In May 2007, we announced the expansion of our MPSV program to include one 430-ft. new generation DP-3 MPSV to be constructed at a European shipyard with an anticipated fourth quarter 2009 delivery. We plan to U.S.-flag this foreign-built vessel for non-Jones Act service primarily in the deepwater and ultra-deepwater GoM. The new DP-3 vessel to be constructed will be included in our MPSV program, which currently consists of two U.S.-flagged coastwise sulfur tankers that are being converted into 370-ft. new generation DP-2 MPSVs. Based on current internal estimates, the aggregate total project budget for all three vessels in this program, before construction period interest, is now expected to be in the range of \$250.0 million to \$270.0 million. We also have an exclusive four-year option to construct up to two additional vessels based upon the same DP-3 MPSV design at a U.S. shipyard of our choice, which once completed would qualify for domestic coastwise trade under the Jones Act.

All of our OSVs operate under time charters, including 13 that are chartered under long-term contracts with expiration dates ranging from September 2007 through June 2012. 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 support services. These contracts generally contain, among others, provisions governing insurance, reciprocal indemnifications, performance requirements and, in certain instances, dayrate escalation terms and renewal options.

Our fleetwide average OSV dayrates for the second quarter of 2007 were at a company historic high of \$21,358. We believe that market conditions for new generation vessels in the GoM are continuing to show long-term positive trends. With the expected increase in deepwater exploratory drilling, the development of the deepwater and ultra-deepwater production infrastructure and the dismantling of old structures from the Continental Shelf, we have noted an increase in opportunities to contract our OSVs on long term fixtures of two to five years. We are also observing an increased level of interest for vessels with specialty service capabilities as evidenced by two of our OSVs having recently been deployed for well stimulation support services on long-term contracts. During the first half of 2007, we had over half of our OSV fleet working in international areas or performing specialty services, such as well stimulation, ROV support or working for the military.

Tugs and Tank Barges

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 increased dayrates for

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this equipment. We are actively working to ensure that our fleet is well positioned to take advantage of opportunities as they develop in this segment. With a focus on expanding our geographic market area and current service offering, we are now operating vessels from our TTB fleet in the Great Lakes and in the GoM. In addition, we have recently been successful in deploying our vessels in non-traditional tank barge services, such as support of deepwater well testing and other specialty applications for our upstream customers. Because we have shifted most of our TTB fleet from COAs to time charters and continue to diversify our services and geographic service areas, some of our historic seasonality for this segment has been diminished. Excluding vessels undergoing regulatory drydocking, we now have nearly all of our tank barges operating under time charters, including nine that are chartered under long-term contracts with expiration dates ranging from late October 2007 through December 2008.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles, or GAAP. In other circumstances, we are required to make estimates, judgments and assumptions based upon available information. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are discussed in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Our property, plant and equipment are recorded at cost. Depreciation and amortization of equipment and leasehold improvements are computed using the straight-line method based on the estimated useful lives and salvage values of the related assets. As of January 1, 2007, we have prospectively modified our assumptions for estimated salvage values for our marine equipment. Salvage values for marine equipment are now estimated to range between 5% and 25% of the originally recorded cost, depending on vessel type. Our depreciation expense for vessels that were in service as of January 1, 2007, as well as for vessels placed in service after that date, is expected to be lower for the remaining estimated useful life of such assets based on the change in our estimated salvage values. Otherwise, there were no other significant changes to our critical accounting policies, as reported in our most recently filed Annual Report on Form 10-K, during the six months ended June 30, 2007.

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Results of Operations

The tables below set forth, by segment, the average dayrates, utilization rates and effective dayrates for our vessels and the average number and size of vessels owned during the periods indicated. These OSVs and tank barges generate substantially all of our revenues and operating profit.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Offshore Supply Vessels:				
Average number of vessels	25.0	25.0	25.0	25.0
Average fleet capacity (deadweight)	59,042	59,042	59,042	59,042
Average vessel capacity (deadweight)	2,362	2,362	2,362	2,362
Average utilization rate (1)	96.7%	96.6%	94.1%	93.3%
Average dayrate (2)	\$ 21,358	\$ 19,321	\$ 20,253	\$ 18,772
Effective dayrate (3)	\$ 20,653	\$ 18,664	\$ 19,058	\$ 17,514
Tugs and Tank Barges:				
Average number of tank barges (4)	18.0	17.5	18.0	17.8
Average fleet capacity (barrels) (4)	1,549,566	1,472,111	1,549,566	1,477,325
Average barge capacity (barrels)	86,087	83,374	86,087	82,869
Average utilization rate (1)	90.9%	90.5%	92.5%	92.1%
Average dayrate (5)	\$ 17,772	\$ 18,420	\$ 17,726	\$ 16,550
Effective dayrate (3)	\$ 16,155	\$ 16,670	\$ 16,397	\$ 15,243

(1) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.

(2) Average dayrate represents average revenue per day, which includes charter hire, crewing services, and net brokerage revenues, based on the number of days during the period that the OSVs generated revenues.

(3) Effective dayrate represents the average dayrate multiplied by the average utilization rate.

(4) The *Energy 2202* is not included in the three or six months ended June 30, 2007 data as it was sold in May 2006. The *Energy 8701* is not included in the three or six months ended June 30, 2006 data as it was previously retired from service under OPA 90 in December 2004, but was reinstated into our active tank barge fleet in October 2006.

(5) Average dayrate represents average revenue per day, including time charters, brokerage revenues, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenues, 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 revenues that is equal to the cost paid by customers of in-chartering third party equipment.

Non-GAAP Financial Measures

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Securities and Exchange Commission, or Commission. We define EBITDA as earnings, or net income, before interest, income taxes, depreciation and amortization. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as 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 this measure is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with GAAP, it should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

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

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

The following table provides the detailed components of EBITDA, as we define that term, for the three and six months ended June 30, 2007 and 2006, respectively (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Components of EBITDA:				
Net income	\$22,637	\$20,292	\$ 40,118	\$35,141
Interest expense (income)				
Debt obligations	4,270	4,450	9,175	8,804
Interest income	(5,772)	(3,573)	(11,780)	(6,684)
Interest, net	(1,502)	877	(2,605)	2,120
Income tax expense	12,806	11,577	22,773	20,043
Depreciation	4,940	6,046	9,747	11,855
Amortization	2,877	1,669	5,258	3,349
EBITDA	<u>\$41,758</u>	<u>\$40,461</u>	<u>\$ 75,291</u>	<u>\$72,508</u>

The following table reconciles EBITDA to cash flows provided by operating activities for the three and six months ended June 30, 2007 and 2006, respectively (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
EBITDA Reconciliation to GAAP:				
EBITDA	\$ 41,758	\$40,461	\$ 75,291	\$72,508
Cash paid for deferred drydocking charges	(4,381)	(4,096)	(10,475)	(4,978)
Cash paid for interest	(11,285)	(9,225)	(11,332)	(9,275)
Cash paid for taxes	(3,794)	—	(3,794)	—
Changes in working capital	13,734	(2,550)	15,857	(7,103)
Stock-based compensation expense	1,689	1,437	3,434	2,675
Changes in other, net	(1,658)	(205)	(1,876)	(104)
Net cash flows provided by operating activities	<u>\$ 36,063</u>	<u>\$25,822</u>	<u>\$ 67,105</u>	<u>\$53,723</u>

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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.

In addition, we also make certain adjustments to EBITDA for stock-based compensation expense and interest income, as well as loss on early extinguishment of debt, as applicable, to compute ratios used in certain financial covenants of our revolving credit facility with various lenders. We believe that these ratios are a material component of certain financial covenants in such credit agreement and failure to comply with the financial covenants could result in the acceleration of indebtedness or the imposition of restrictions on our financial flexibility.

The following table provides the detailed adjustments to EBITDA, as defined in our revolving credit facility, for the three and six months ended June 30, 2007 and 2006, respectively (in thousands).

Adjustments to EBITDA for Computation of Financial Ratios Used in Debt Covenants

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Stock-based compensation expense	\$ 1,689	\$ 1,437	\$ 3,434	\$2,675
Interest income	5,772	3,573	11,780	6,684

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The following table provides detailed components of net income for the three months ended June 30, 2007 and 2006, respectively (in thousands, except for percentage changes).

	Three Months Ended June 30,		Increase (Decrease)	
	2007	2006	\$ Change	% Change
Revenues:				
Offshore supply vessels				
Domestic	\$41,734	\$37,901	\$ 3,833	10.1%
Foreign	6,875	6,249	626	10.0
	<u>48,609</u>	<u>44,150</u>	<u>4,459</u>	<u>10.1</u>
Tugs and tank barges				
Domestic	24,325	24,595	(270)	(1.1)
Foreign (1)	2,137	1,950	187	9.6
	<u>26,462</u>	<u>26,545</u>	<u>(83)</u>	<u>(0.3)</u>
Total	<u>\$75,071</u>	<u>\$70,695</u>	<u>\$ 4,376</u>	<u>6.2%</u>
Operating expenses:				
Offshore supply vessels	\$15,620	\$13,476	\$ 2,144	15.9%
Tugs and tank barges	11,900	9,253	2,647	28.6
Total	<u>\$27,520</u>	<u>\$22,729</u>	<u>\$ 4,791</u>	<u>21.1%</u>
Depreciation and amortization:				
Offshore supply vessels	\$ 4,079	\$ 4,258	\$ (179)	(4.2)%
Tugs and tank barges	3,738	3,457	281	8.1
Total	<u>\$ 7,817</u>	<u>\$ 7,715</u>	<u>\$ 102</u>	<u>1.3%</u>
General and administrative expenses				
Offshore supply vessels	\$ 3,755	\$ 3,694	\$ 61	1.7%
Tugs and tank barges	3,896	4,160	(264)	(6.3)
Total	<u>\$ 7,651</u>	<u>\$ 7,854</u>	<u>\$ (203)</u>	<u>(2.6)%</u>
Gain on sale of assets:				
Offshore supply vessels	\$ 1,852	\$ —	\$ 1,852	100.0%
Tugs and tank barges	—	328	(328)	(100.0)
Total	<u>\$ 1,852</u>	<u>\$ 328</u>	<u>\$ 1,524</u>	<u>464.6%</u>
Operating income:				
Offshore supply vessels	\$27,007	\$22,722	\$ 4,286	18.9%
Tugs and tank barges	6,928	10,003	(3,075)	(30.7)
Total	<u>\$33,935</u>	<u>\$32,725</u>	<u>\$ 1,211</u>	<u>3.7%</u>
Interest expense	<u>\$ 4,270</u>	<u>\$ 4,450</u>	<u>\$ (180)</u>	<u>(4.0)%</u>
Interest income	<u>\$ 5,772</u>	<u>\$ 3,573</u>	<u>\$ 2,199</u>	<u>61.5%</u>
Income tax expense	<u>\$12,806</u>	<u>\$11,577</u>	<u>\$ 1,229</u>	<u>10.6%</u>
Net income	<u>\$22,637</u>	<u>\$20,292</u>	<u>\$ 2,345</u>	<u>11.6%</u>

(1) Included are amounts applicable to our TTB operations in Puerto Rico. Puerto Rico is considered a possession of the United States and, therefore, the Jones Act and U.S. environmental laws and regulations apply to vessels operating in Puerto Rican waters.

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Revenues. Revenues for the three months ended June 30, 2007 were higher than the same period in 2006 due primarily to continued favorable market conditions in our OSV segment.

Revenues from our OSV segment were 10.1% higher for the three months ended June 30, 2007 compared to the same period in 2006, due primarily to an increase in fleetwide average dayrates. Our OSV average dayrate was \$21,358 for the second quarter of 2007 compared to \$19,321 for the same period in 2006, an increase of \$2,037 or 10.5%. Domestic and foreign revenues for our OSV segment for the second quarter of 2007 increased 10.1% and 10.0%, respectively, due to improved market conditions. Since June 30, 2006, 17 of our 25 OSVs had previous contracts expire and commenced new contracts at higher market dayrates.

Revenues from our TTB segment decreased 0.3% for the three months ended June 30, 2007 compared to the same period in 2006. Our tank barge average dayrate was \$17,772 for the three months ended June 30, 2007, a decrease of \$648, or 3.5%, from \$18,420 for the same period in 2006. The decrease in dayrates was primarily related to the second quarter of 2006 being favorably impacted by our ability to provide non-traditional tank barge services, at spot dayrates, to certain of our upstream customers. Our tank barge utilization was 90.9% for the three months ended June 30, 2007 compared to 90.5% for the same period in 2006.

Operating Expenses. Operating expenses for the three months ended June 30, 2007 increased 21.1% compared to the same period in 2006, due primarily to higher fleet personnel costs, in-chartering third-party equipment and FAS 123R stock-based compensation costs associated with the June 2006 and February 2007 grants of restricted stock units to fleet personnel. This increase in operating expense is in-line with our previously reported expectation that daily operating costs for existing vessels in each of our operating segments would increase approximately 20% to 25% for 2007 over 2006 levels. However, recent operating trends reflect increases that are at the lower end of this range.

Operating expenses for our OSV segment increased 15.9% for the three months ended June 30, 2007 compared to the same period in 2006, primarily due to market-driven wage increases for OSV mariners in the latter half of 2006, increased labor costs at our shore-based port facility due to increased staffing, FAS 123R stock-based compensation related to restricted stock unit awards granted to mariners during the second quarter of 2006 and first quarter of 2007 and higher contract service costs associated with operating in foreign markets.

Operating expenses for our TTB segment increased 28.6% for the three months ended June 30, 2007 compared to the same period in 2006, primarily as a result of higher costs for the in-chartering of third-party tugs to fulfill time charter requirements and increased compensation costs for TTB mariners, including FAS123R stock-based compensation related to restricted stock unit awards granted to mariners during the second quarter of 2006 and first quarter of 2007. Average daily operating expense for the TTB segment is also expected to increase in 2007 commensurate with the delivery of three 60,000-barrel double-hulled tank barges and four retrofitted ocean-going tugs that are expected to be placed in service on various dates throughout 2007, one of which was delivered in July 2007.

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Depreciation and Amortization. Depreciation and amortization was \$0.1 million higher for the three months ended June 30, 2007 compared to the same period in 2006 due to higher amortization expenses resulting from increased drydockings and drydocking costs. Our drydocking costs were unfavorably impacted during the second quarter of 2007 by reduced shipyard availability, shipyard labor shortages and an increase in the number of our vessels that have incurred their first 30 or 60 month regulatory drydocking since the second quarter of 2006. The increase in amortization expenses was partially offset by a decrease in depreciation expense due to change in estimated salvage values for our vessels. As of January 1, 2007, we have prospectively modified our assumptions for estimated salvage values for our vessels. The salvage values are now estimated to range between 5% and 25% of the original recorded cost, depending on vessel type. As this represents a change in estimate, we expect our depreciation expense for vessels that were in service as of January 1, 2007, as well as for vessels placed in service after that date, to be lower for the remaining estimated useful life of such assets based on the change in our estimated salvage values. Depreciation and amortization expense is expected to increase from current levels when the vessels under our current newbuild and conversion programs are placed in service and when these and any other recently acquired and newly constructed vessels undergo their initial 30 and 60 month recertifications.

General and Administrative Expense. General and administrative expenses decreased \$0.2 million for the three months ended June 30, 2007 compared to the same period in 2006. The decrease in general and administrative expense is primarily due to lower health insurance costs and lower incentive compensation for shore-side personnel. Our general and administrative expenses, inclusive of FAS123R expenses, are expected to increase approximately 20% for 2007 over 2006 levels, but are still expected to remain approximately 10% to 12% of revenues.

Gain on sale of assets. We recorded a \$1.9 million gain in our OSV segment during the second quarter of 2007 resulting from the sale of our fast supply vessel, the *HOS Hotshot*, for net proceeds of approximately \$5.9 million. During the second quarter of 2006, we sold the *Energy 2202*, a single-hulled tank barge for a gain of \$0.3 million.

Operating Income. Operating income increased by 3.7%, or \$1.2 million, to \$33.9 million for the second quarter of 2007. Operating income as a percentage of revenues for our OSV segment was 55.6% for the three months ended June 30, 2007, compared to 51.5% for the same period in 2006. The primary driver for this margin increase relates to an increase in dayrates. Operating income as a percentage of revenues for our TTB segment was 26.2% for the three months ended June 30, 2007, compared to 37.7% for the same period in 2006. The primary driver for this margin decrease relates to the changes in dayrates and operating expenses as discussed above.

Interest Expense. Interest expense decreased \$0.2 million for the three months ended June 30, 2007 compared to the same period in 2006, primarily as a result of an increase in capitalized interest, which was offset, in part, by additional interest expense generated from the November 2006 issuance of \$250.0 million of 1.625% convertible senior notes. Capitalized interest is expected to further increase with the higher newbuild construction and conversion activity during the remainder of 2007.

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Interest Income. Interest income increased \$2.2 million for the three months ended June 30, 2007 primarily due to higher interest rates on larger invested cash balances. Our cash balances were driven higher by the contribution of \$156.6 million in net proceeds received from the November 2006 convertible senior notes offering and related transactions. Our average cash balance for the three months ended June 30, 2007 was \$439.6 million compared to \$293.6 million for the same period in 2006. Our average interest rate earned on invested cash during for the three months ended June 30, 2007 was approximately 5.4% compared to approximately 4.8% in the same period of 2006.

Income Tax Expense. Our effective tax rate was 36.1% for the three months ended June 30, 2007 and 36.3% for the same period in 2006. Our income tax expense primarily consists of deferred taxes due to our federal tax 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.

Net Income. Net income increased by 11.6%, or \$2.3 million, to \$22.6 million for the second quarter of 2007 primarily due to the growth in operating income and net interest income for the reasons discussed above.

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The following table provides detailed components of net income for the six months ended June 30, 2007 and 2006, respectively (in thousands, except for percentage changes).

	Six Months Ended June 30,		Increase (Decrease)	
	2007	2006	\$ Change	% Change
Revenues:				
Offshore supply vessels				
Domestic	\$ 77,736	\$ 71,215	\$ 6,521	9.2%
Foreign	12,015	11,435	580	5.1
	<u>89,751</u>	<u>82,650</u>	<u>7,101</u>	<u>8.6</u>
Tugs and tank barges				
Domestic	48,696	45,206	3,490	7.7
Foreign (1)	4,714	3,895	819	21.0
	<u>53,410</u>	<u>49,101</u>	<u>4,309</u>	<u>8.8</u>
Total	<u>\$143,161</u>	<u>\$131,751</u>	<u>\$11,410</u>	<u>8.7%</u>
Operating expenses:				
Offshore supply vessels	\$ 30,945	\$ 26,227	\$ 4,718	18.0%
Tugs and tank barges	23,680	18,681	4,999	26.8
Total	<u>\$ 54,625</u>	<u>\$ 44,908</u>	<u>\$ 9,717</u>	<u>21.6%</u>
Depreciation and amortization:				
Offshore supply vessels	\$ 7,832	\$ 8,331	\$ (499)	(6.0)%
Tugs and tank barges	7,173	6,873	300	4.4
Total Total	<u>\$ 15,005</u>	<u>\$ 15,204</u>	<u>\$ (199)</u>	<u>(1.3)%</u>
General and administrative expenses				
Offshore supply vessels	\$ 7,469	\$ 6,890	\$ 579	8.4%
Tugs and tank barges	7,629	7,804	(175)	(2.2)
Total	<u>\$ 15,098</u>	<u>\$ 14,694</u>	<u>\$ 404</u>	<u>2.7%</u>
Gain on sale of assets:				
Offshore supply vessels	\$ 1,842	\$ —	\$ 1,842	100.0%
Tugs and tank barges	—	328	(328)	(100.0)
Total	<u>\$ 1,842</u>	<u>\$ 328</u>	<u>\$ 1,514</u>	<u>461.6%</u>
Operating income:				
Offshore supply vessels	\$ 45,347	\$ 41,202	\$ 4,145	10.1%
Tugs and tank barges	14,928	16,071	(1,143)	(7.1)
Total	<u>\$ 60,275</u>	<u>\$ 57,273</u>	<u>\$ 3,002</u>	<u>5.2%</u>
Interest expense	<u>\$ 9,175</u>	<u>\$ 8,804</u>	<u>\$ 371</u>	<u>4.2%</u>
Interest income	<u>\$ 11,780</u>	<u>\$ 6,684</u>	<u>\$ 5,096</u>	<u>76.2%</u>
Income tax expense	<u>\$ 22,773</u>	<u>\$ 20,043</u>	<u>\$ 2,730</u>	<u>13.6%</u>
Net income	<u>\$ 40,118</u>	<u>\$ 35,141</u>	<u>\$ 4,977</u>	<u>14.2%</u>

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Revenues. Revenues for the six months ended June 30, 2007 were higher than the same period in 2006 due primarily to the tightening of market conditions in the GoM for services provided by OSVs and tugs and tank barges in addition to increasing demand for barge transportation services in the northeastern United States. Our average operating fleet was approximately 57 vessels and 58 vessels at the end of the 2007 and 2006 periods, respectively.

Revenues from our OSV segment were 8.6% higher for the six months ended June 30, 2007 compared to the same period in 2006, due primarily to continued strength in the GoM resulting in fleetwide effective dayrates being roughly \$1,500 higher during the 2007 period. Our OSV average dayrates were \$20,253 for the first six months of 2007 compared to \$18,772 for the same period in 2006, an increase of \$1,481 or 7.9%. OSV utilization was 94.1% for the first half of 2007 compared to 93.3% for the same period in 2006. Domestic revenues for our OSV segment for the first six months of 2007 increased 9.2% compared to the same period in 2006. Foreign revenues for our OSV segment for the first half of 2007 increased 5.1% compared to the same period in 2006 due to stronger conditions in our foreign markets.

Revenues from our TTB segment increased 8.8% for the six months ended June 30, 2007 compared to the same period in 2006, due to higher market-driven dayrates, our shift in contract mix from COAs to time charters since the end of the first quarter of 2006 and a full-period contribution from a previously retired single-hulled tank barge that was placed back into service in October 2006. Our tank barge average dayrates were \$17,726 for the six months ended June 30, 2007, an increase of \$1,176, or 7.1%, from \$16,550 for the same period in 2006. Our tank barge utilization was 92.5% for the six months ended June 30, 2007 compared to 92.1% for the same period in 2006.

Operating Expenses. Operating expenses for the six months ended June 30, 2007 increased 21.6% compared to the same period in 2006, due primarily to higher costs related to fleet personnel and in-chartering third-party equipment. This increase in operating expense is in-line with our previously reported expectation that daily operating costs for existing vessels in each of our operating segments would increase approximately 20% to 25% for 2007 over 2006 levels. However, recent operating trends reflect increases that are at the lower end of this range.

Operating expenses for our OSV segment increased 18.0% for the six months ended June 30, 2007 compared to the same period in 2006, primarily due to increased fleet personnel costs for OSV mariners offset, in part, by lower insurance expense and customer-requested contract labor, the cost of the latter of which is offset by higher dayrates charged to customers.

Operating expenses for our TTB segment increased 26.8% for the six months ended June 30, 2007 compared to the same period in 2006, primarily as a result of wage increases for TTB mariners, FAS123R stock-based compensation related awards granted to mariners during and since the second quarter of 2006, the increased cost of in-chartered third-party tugs, higher maintenance and repair costs and to a lesser extent, higher insurance costs. These cost increases were offset, in part, by lower fuel costs during the six months ended June 30, 2007 due to a shift in contract mix from COAs to time charters since the end of the first quarter of 2006. Under time charter arrangements, the charterer is typically responsible for fuel costs.

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Depreciation and Amortization. Depreciation and amortization was \$0.2 million lower for the six months ended June 30, 2007 compared to the same period in 2006 due primarily to a change in estimated salvage values for our vessels, which was partially offset by an increase in amortization expenses resulting from increased drydockings and drydocking costs.

General and Administrative Expense. General and administrative expenses increased \$0.4 million for the six months ended June 30, 2007 compared to the same period in 2006. The increase in general and administrative expense is primarily due to higher shoreside compensation and insurance costs. Compensation costs increased as the result of additional stock awards under our long term incentive compensation program.

Gain on sale of assets. In the second quarter of 2007, we recorded a gain of \$1.9 million related to the sale our fast supply vessel. In the second quarter of 2006, we sold a single-hulled tank barge and recorded a gain of \$0.3 million.

Operating Income. Operating income increased by 5.2%, or \$3.0 million, to \$60.3 million for the first six months of 2007 due to the reasons discussed above. Operating income as a percentage of revenues for our OSV segment was 50.5% for the six months ended June 30, 2007, compared to 49.9% for the same period in 2006. The primary drivers for this margin increase relates to higher market-driven dayrates, the gain on sale of our fast supply vessel, and a decrease in depreciation expense. Operating income as a percentage of revenues for our TTB segment was 27.9% for the six months ended June 30, 2007, compared to 32.7% for the same period in 2006. This margin decrease primarily relates to the increase in operating expenses exclusive of a corresponding increase in revenues as discussed above.

Interest Expense. Interest expense increased \$0.4 million for the six months ended June 30, 2007 compared to the same period in 2006, primarily as a result of the November 2006 issuance of \$250.0 million of 1.625% convertible senior notes. The increase in interest expense was partially offset by a \$2.4 million increase in capitalized interest during the first half of 2007 compared to the same period in 2006. The increase in capitalized interest resulted from higher newbuild construction and conversion activity during the 2007 period.

Interest Income. Interest income increased \$5.1 million for the six months ended June 30, 2007 primarily due to higher interest rates on larger invested cash balances. Our cash balances were driven higher by the contribution of \$156.6 million in net proceeds received from the November 2006 convertible senior notes offering and related transactions. Our average cash balance for the six months ended June 30, 2007 was \$451.6 million compared to \$285.7 million for the same period in 2006. Our average interest rate earned on invested cash during the first six months of 2007 was approximately 5.5% compared to approximately 4.5% in the same period of 2006.

Income Tax Expense. Our effective tax rate was 36.2% and 36.3% for the six months ended June 30, 2007 and 2006, respectively. Our income tax expense primarily consists of deferred taxes due to our federal tax 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.

Net Income. Net income increased by 14.2%, or \$5.0 million, to \$40.1 million for the six months ended June 30, 2007 primarily due to the growth in operating income and net interest income for the reasons discussed above.

Liquidity and Capital Resources

Our capital requirements have historically been financed with cash flows from operations, proceeds from issuances of our debt and common equity securities, and borrowings under our credit facilities. We require capital to fund on-going operations, vessel construction, retrofit or conversion, 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 during the remainder of 2007.

On September 27, 2006, we entered into a new senior secured revolving credit facility with an increased current borrowing base of \$100.0 million and an accordion feature that allows for an increase in the size of the facility to an aggregate of \$250.0 million in certain circumstances. The new senior secured revolving credit facility replaced our prior revolving credit facility. The new facility has a maturity date of September 27, 2011. As of June 30, 2007, we had no amounts drawn and \$100.0 million of credit immediately available under such new revolving credit facility.

We have from time to time 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, conversion or retrofit of existing vessels or acquisition of additional vessels, including, but not limited to, OSVs, MPSVs, AHTS vessels, fast supply vessels, ocean-going tugs, tank barges and tankers, as needed to take advantage of the market demand for such vessels.

We believe that our current working capital, projected cash flows from operations and available capacity under our revolving credit facility, will be sufficient to meet our cash requirements for the foreseeable future and will fund our recently announced pending fleet acquisition and our previously announced vessel newbuild and conversion programs, including the expansion of such programs announced since their commencement. Included within our current cash on hand is a portion of the net proceeds from our October 2005 common stock offering and concurrent senior note offering and our November 2006 convertible senior note offering and concurrent hedge transactions.

Although we expect to continue generating positive working capital through our operations, events beyond our control, such as declines in expenditures for exploration, development and production activity, mild winter conditions or a reduction in domestic consumption of refined petroleum products and other reasons discussed under "Forward Looking Statements" below, may affect our financial condition or results of operations. 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.

Cash Flows

Operating Activities. We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities were \$67.1 million

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for the six months ended June 30, 2007 and \$53.7 million for the six months ended June 30, 2006. The increase in operating cash flows from the six months ended June 30, 2006 was primarily due to increased effective dayrates in our OSV segment.

Investing Activities. Net cash used in investing activities was \$113.9 million for the six months ended June 30, 2007 and \$26.8 million for the six months ended June 30, 2006. Cash utilized in the first half of 2007 primarily consisted of construction costs incurred for our MPSV program, our fourth OSV newbuild program, and our second TTB newbuild program, which was partially offset by approximately \$5.9 million in net cash inflows for the sale of the *HOS Hotshot*, a fast supply vessel, in April 2007. Cash utilized in the first six months of 2006 consisted of construction costs incurred for our first and second TTB newbuild programs, our MPSV program, our fourth OSV newbuild program and improvements made to our recently acquired shore-based port facility. The cash utilized for investing activities during the first half of 2006 was partially offset by approximately \$1.1 million of net cash inflows from the sale of the *Energy 2202* in May 2006. Investing activities for the remainder of 2007 are anticipated to include costs related to our current newbuild and conversion programs, retrofit and construction of additional vessels, our recently announced pending fleet acquisition, additional acquisitions and other capital expenditures, including discretionary vessel modifications and corporate projects.

Financing Activities. Net cash provided by financing activities was \$1.4 million for the six months ended June 30, 2007 and \$1.0 million for the six months ended June 30, 2006. Net cash provided by financing activities for the first half of 2007 and 2006 resulted from the net proceeds from common stock issued under employee benefit programs.

Contractual Obligations

Debt

As of June 30, 2007, we had total debt of \$549.5 million, net of original issue discount. Our debt is comprised of \$299.5 million of our 6.125% senior notes due 2014 and \$250.0 million of our 1.625% convertible senior notes due 2026. The effective interest rate on the senior notes is 6.38% with semi-annual cash interest payments of \$9.2 million due and payable each June 1 and December 1. The convertible senior notes bear interest at an annual rate of 1.625% with semi-annual cash interest payments of \$2.0 million due May 15 and November 15, declining to 1.375%, or \$1.7 million semi-annually, beginning on November 15, 2013. The first interest payment on the convertible senior notes was completed on May 15, 2007. We also have a new, currently undrawn senior secured revolving credit facility due September 2011 with an increased current borrowing base of \$100.0 million and an accordion feature that allows for an increase in the size of the facility to an aggregate of \$250.0 million in certain circumstances.

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Capital Expenditures and Related Commitments

The following table sets forth the amounts incurred, before construction period interest, during the three and six months ended June 30, 2007 and since each program's inception, respectively, as well as the estimated total project costs for each of our current expansion programs (in millions):

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007	Incurred Since Inception	Estimated Program Totals(1)	Projected Delivery Dates(1)
Growth Capital Expenditures:					
MPSV program (2)	\$ 31.8	\$ 60.8	\$ 100.0	\$ 260.0	2Q2008 – 4Q2009
OSV newbuild program #4 (3)	8.2	16.6	38.7	305.0	1Q2008 – 1Q2010
TTB newbuild program #2 (4)	12.5	27.8	47.2	75.0	3Q2007 – 4Q2007
Pending Sea Mar acquisition (5)	—	—	—	220.0	3Q2007 – 4Q2008
Total:	\$ 52.5	\$ 105.2	\$ 185.9	\$ 860.0	

- (1) Estimated Program Totals and Projected Delivery Dates are based on internal estimates and are subject to change due to delays and possible cost overruns inherent in any large construction project, including shortages of equipment, lack of shipyard availability, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, inability to obtain necessary certifications and approvals and shortages of materials, component equipment or skilled labor. All of the above historical and budgeted capital expenditure project amounts for our newbuild and conversion programs represent estimated cash outlays and do not include any allocation of capitalized construction period interest. Projected delivery dates correspond to pending vessels that are currently contracted with shipyards for construction, retrofit or conversion.
- (2) In May 2005, we announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, 370-ft. DP-2 new generation MPSVs. These MPSVs are expected to be delivered from the shipyard in mid-2008. In May 2007, we announced the expansion of our MPSV program to include one 430-ft. DP-3 new generation MPSV that will be constructed in a foreign shipyard and an exclusive four-year option to build up to two additional vessels of the same DP-3 MPSV design at a domestic shipyard of our choice. The newbuild DP-3 MPSV is expected to be delivered from the foreign shipyard during the fourth quarter of 2009.
- (3) In September 2005, we announced, and later expanded in February, May and August 2006, respectively, our fourth OSV newbuild program. This program is now expected to add, in the aggregate, approximately 38,000 deadweight tons of capacity to our OSV fleet. We are currently committed under vessel construction contracts with two domestic shipyards to build four proprietary 240 ED class OSVs and nine proprietary 250 EDF class OSVs, respectively.
- (4) In September 2005, we announced, and later expanded in August 2006, our second TTB newbuild program. We are currently committed under vessel construction contracts with domestic shipyards to build three 60,000-barrel proprietary double-hulled barges and retrofit three additional 3,000 horsepower ocean-going tugs that were purchased in July 2006. The first of four 3,000 horsepower ocean-going tugs retrofitted under this newbuild program, the *Michigan Service*, was delivered in July 2007.
- (5) In July 2007, we announced a pending acquisition of the Sea Mar Fleet and their related business from certain affiliates of Nabors Industries, Ltd., or Nabors. The Sea Mar Fleet is comprised of ten 200 class new generation OSVs and ten conventional OSVs. We expect to close this transaction in early August 2007. We also agreed to purchase one 285 foot DP-2 class new generation vessel currently under construction at a domestic shipyard with an anticipated fourth quarter 2008 delivery.

During calendar 2007, we expect to drydock a total of twelve OSVs, four tugs, and three tank barges for recertification and/or discretionary vessel enhancements. We also expect to acquire additional equipment for our OSVs to support subsea operations, and to incur non-vessel capital expenditures related primarily to information technology initiatives, shore-side transportation assets and corporate projects. The following table summarizes the costs incurred for these purposes for the three and six months ended June 30, 2007 and 2006, and the projected costs for the year ended December 31, 2007 (in millions and prior to construction period interest, as applicable):

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2007	2006	2007	2006	2007
	Actual	Actual	Actual	Actual	Forecast
Maintenance Capital Expenditures:					
Deferred drydocking charges	\$ 4.4	\$ 4.1	\$10.5	\$ 5.0	\$ 16.1
Other vessel capital improvements	4.9	1.8	6.5	2.9	22.9
Miscellaneous non-vessel additions	1.6	1.4	2.5	2.7	7.2
Total:	\$10.9	\$ 7.3	\$19.5	\$10.6	\$ 46.2

Forward Looking Statements

We make forward-looking statements in this Quarterly Report on Form 10-Q, including certain information set forth in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have based these forward-looking statements on our current views and assumptions about future events and our future financial performance. You can generally identify forward-looking statements by the appearance in such a statement of words like "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "forecast" "project," "should" or "will" or other comparable words or the negative of such words. When you consider our forward-looking statements, you should keep in mind the risk factors we describe in our Annual Report on Form 10-K for the year ended December 31, 2006 and other cautionary statements we make in this Quarterly Report on Form 10-Q.

Among the risks, uncertainties and assumptions to which these forward-looking statements may be subject, including with respect to the pending acquisition of the Sea Mar Fleet from Nabors, are:

- activity levels in the energy markets;
- changes in oil and natural gas prices;
- increases in supply of vessels in our markets;
- the effects of competition;
- our ability to complete vessels under construction or conversion programs without significant delays or cost overruns;
- our ability to integrate acquisitions successfully;
- our ability to maintain adequate levels of insurance;
- changes in demand for refined petroleum products or in methods of delivery;
- loss of existing customers and our ability to attract new customers;
- changes in laws;
- changes in domestic and international economic and political conditions;
- changes in foreign currency exchange rates;
- adverse domestic or foreign tax consequences;
- uncollectible accounts receivable or longer collection periods on such accounts;
- financial stability of our customers;
- less than anticipated subsea infrastructure demand activity in the GoM and other markets;
- the inability to secure contracts for vessels under construction at currently expected dayrates;
- the repeal or administrative erosion of the Jones Act;
- laws governing the health and safety of our employees working offshore;
- catastrophic marine disasters;

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- collisions or allisions;
- shipyard delays in drydockings;
- adverse weather and sea conditions;
- oil and hazardous substance spills;
- war and terrorism;
- acts of God;
- our ability to finance our operations and capital requirements on acceptable terms and access the debt and equity markets;
- our ability to recruit and retain qualified crew members;
- our ability to charter our vessels on acceptable terms;
- the loss or suspension of coastwise trade endorsements existing on or to be obtained for the Nabors vessels;
- the inability to attract and/or retain personnel currently employed by Nabors, including vessel crews;
- delays in closing or the inability to close the Nabors transaction for any reason, including third party consents or approvals;
- any unanticipated negative impact on us of disclosed or undisclosed matters relating to the vessels and operations acquired from Nabors;
- construction delays, cost overruns, design flaws or other factors that negatively impact the anticipated utility of the Nabors vessel under construction;
- risks that the integration of the Nabors fleet operations with our own will be more difficult or costly than anticipated;
- unanticipated material increases in operating or dry docking costs or expenses associated with the Nabors vessels;
- risks associated with expanded foreign operations resulting from the Nabors transaction; and
- our success at managing these risks.

Our forward-looking statements are only predictions based on expectations that we believe are reasonable. Actual events or results may differ materially from those described in any forward-looking statement. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. To the extent these risks, uncertainties and assumptions give rise to events that vary from our expectations, the forward-looking events discussed in this Quarterly Report on Form 10-Q may not occur.

Item 3—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, other than the convertible note hedge and

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warrant transactions entered into concurrently with our convertible note offering in November 2006. Such transactions were entered into to mitigate the potential dilutive effect of the conversion feature of the convertible notes on our common stock.

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 6.125% senior notes and 1.625% convertible 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. Such fluctuations may create or negate the need to enter into other financial instruments to manage or reduce interest rate risk. The currently outstanding 6.125% senior notes accrue interest at the rate of 6.125% per annum and mature on December 1, 2014 and the effective interest rate on such notes is 6.39%. Our outstanding 1.625% convertible senior notes accrue interest at the rate of 1.625%, which will decline to 1.375% beginning on November 15, 2013, and mature on November 15, 2026 and the effective interest rate on such notes is 2.04%. Our revolving credit facility has a variable interest rate and, therefore, is not subject to interest rate risk.

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 four 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 Trinidad & Tobago Dollars which creates an exchange risk related to currency fluctuations. In addition, we are currently operating under a fixed time charter with two of our OSVs 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 charter.

In May 2007, we announced the expansion of our MPSV program to include the newbuild construction of one DP-3 MPSV at a foreign shipyard. This shipyard contract is denominated in Euros and we will be required to remit shipyard milestone payments in such currency. To date, we have not hedged against foreign currency rate fluctuations associated with these shipyard milestone payments.

In August 2007, we expect to close our pending acquisition of OSVs from Nabors. In connection with that transaction, we expect to assume time charters for five OSVs for service in international waters as follows: three in Mexico and two in Qatar. We also expect to manage five additional Nabors-owned vessels in Mexico for an agreed daily fee.

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. To date, gains or losses associated with such fluctuations have not been material.

Item 4—Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

None.

Item 1A—Risk Factors

We have grown, and may continue to grow, through acquisitions that give rise to risks and challenges that could adversely affect our future financial results.

We regularly consider possible acquisitions of single vessels, vessel fleets and businesses that complement our existing operations to enable us to grow our business. Acquisitions can involve a number of special risks and challenges, including:

- diversion of management time and attention from our existing business and other business opportunities;
- delays in closing or the inability to close an acquisition for any reason, including third party consents or approvals;
- any unanticipated negative impact on us of disclosed or undisclosed matters relating to any vessels or operations acquired;
- loss or termination of employees, including costs associated with the termination or replacement of those employees;
- assumption of debt or other liabilities of the acquired business, including litigation related to the acquired business;
- the incurrence of additional acquisition-related debt as well as increased expenses and working capital requirements;
- dilution of stock ownership of existing stockholders;
- increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act; and
- substantial accounting charges for restructuring and related expenses, impairment of goodwill, amortization of intangible assets, and stock-based compensation expense.

Even if we consummate an acquisition, the process of integrating acquired operations into our own may result in unforeseen operating difficulties and costs and may require significant management attention and financial resources. In addition, integrating acquired businesses may impact the effectiveness of our internal control over financial reporting. Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of utilization and profitability from acquired vessels or businesses or to realize other anticipated benefits of acquisitions.

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 or closing such acquisitions on satisfactory terms. An inability to acquire additional vessels or businesses may limit our growth potential.

The pending acquisition of the Sea Mar Fleet from Nabors announced in July 2007 may involve one or more of the additional risks and challenges set forth above.

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There were no other material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, in response to Item 1A to Part I of Form 10-K and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, in response to Item 1A of Part II of Form 10-Q.

Item 2—Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3—Defaults Upon Senior Securities

None.

Item 4—Submission of Matters to a Vote of Security Holders

Election of Class II Directors

On May 1, 2007, we held our 2007 Annual Meeting of Stockholders. At that meeting, Bruce W. Hunt and Bernie W. Stewart were re-elected to serve on our Board of Directors as Class I directors until our 2010 Annual Meeting of Stockholders or until their successors shall have been duly elected and qualified or until their earlier resignation or removal. As to each of the foregoing directors, the number of shares cast for or against their re-election, as well as the number of abstentions and broker non-votes, were as follows:

Name	For	Against	Abstentions/ Broker Non-votes
Bruce W. Hunt	22,887,541	—	189,174
Bernie W. Stewart	22,870,517	—	206,198

The other directors continuing in office after the meeting were Todd M. Hornbeck, Larry D. Hornbeck, Steven W. Krablin, David A. Trice and Patricia B. Melcher.

Ratify Appointment of Auditors

At the 2007 Annual Meeting of Stockholders, our stockholders ratified the Board of Directors' appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2007 to conduct our annual audits and quarterly reviews of financial statements and tax and other advisory services. The number of shares cast for or against this matter, as well as the number of abstentions and broker non-votes, were as follows:

For	Against	Abstentions/ Broker Non-votes
22,765,683	269,715	41,318

Item 5—Other Information

Recent Events

On July 16, 2007, the Board of Directors of the Company approved a revised Director & Advisory Director Compensation Policy, or Director Compensation Policy, for the Company's non-employee directors pursuant to the recommendation of the Compensation Committee of

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the Board. The Director Compensation Policy replaces the existing Director & Advisory Director Compensation Policy for the Company's non-employee directors. Under the Director Compensation Policy and commencing effective January 1, 2007, our non-employee directors' compensation is revised as follows: (i) the annual cash retainer paid to each non-employee director is increased from \$26,000 to \$32,500; and (ii) the directors of the Company may receive restricted stock units awards, in addition to stock options and restricted stock awards. The foregoing summary of the Company's revised Director Compensation Policy is qualified in its entirety by reference to the full text of the revised Director Compensation Policy, which is attached hereto as Exhibit 10.1.

On July 20, 2007, the Company entered into a definitive Asset Purchase Agreement with certain affiliates of Nabors Industries Ltd., or Nabors, to acquire 20 offshore supply vessels, or OSVs, and their related business, or the Sea Mar Fleet, for cash consideration of \$186.0 million, plus the cost of any fuel inventory on such vessels. The Sea Mar Fleet is comprised of ten 200 class DP-1 new generation OSVs and ten conventional OSVs. The Company also agreed to purchase one 285-foot DP-2 new generation OSV currently under construction at a domestic shipyard with an anticipated fourth quarter 2008 delivery. The expected cost of this newbuild vessel, prior to allocation of construction period interest, is approximately \$34.0 million, of which approximately \$7.3 million will be paid to Nabors at closing (which includes \$3.0 million paid as transaction consideration for the new vessel). All of the Sea Mar Fleet are U.S. flagged and qualify for U.S. coastwise trade under the "Jones Act" except for one of the conventional vessels, which is foreign-flagged. In addition, under a separate agreement and effective upon closing, the Company will manage five Nabors-owned Mexican flagged vessels currently operating offshore Mexico. Closing is subject to customary conditions, including third party consents and regulatory approvals, and is expected to occur in early August 2007. The foregoing description of the Asset Purchase Agreement is qualified in its entirety by reference to the Asset Purchase Agreement, a copy of which is attached as Exhibit 2.1 to the Company's Current Report on Form 8-K filed July 26, 2007.

On July 31, 2007, the Board of Directors approved the Hornbeck Offshore Services, Inc. Deferred Compensation Plan (the "Plan"), to become effective July 10, 2007. The Plan is designed to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The Plan is an unfunded and unsecured deferred compensation arrangement that is designed to allow the participants to defer a specified percentage of their base salary, bonuses, director fees and/or equity awards. While adopted to allow participants to defer certain elements of their compensation, the Plan has been drafted with sufficient flexibility to allow the Company, should it determine in the future to do so, to make matching or other discretionary contributions under the Plan for the account of the participants. As required by applicable law, participation in the Plan is limited to a group of the Company's management employees, which group includes each of the Company's named executive officers and the Company's directors. Distributions will be made in accordance with elections filed by participants at the time of their initial deferrals and distributions generally are expected to occur at specified dates or after a participant's separation from service. The Plan may be amended or terminated by the Compensation Committee of the Board of Directors at any time. The foregoing summary of the Company's Deferred Compensation Policy is qualified in its entirety by reference to the full text of the Deferred Compensation Policy, which is attached hereto as Exhibit 10.2.

Item 6—Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
2.1	— Asset Purchase Agreement, dated July 20, 2007, by and among Nabors US Finance LLC, Nabors Well Services Co. (inclusive of its Sea Mar Division), Sea Mar Management LLC and Hornbeck Offshore Services, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed July 26, 2007).
3.1	— Second Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended March 31, 2005).
3.2	— Certificate of Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on June 20, 2003 (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
3.3	— Fourth Restated Bylaws of the Company adopted June 30, 2004 (incorporated by reference to Exhibit 3.3 to the Company's Form 10-Q for the quarter ended June 30, 2004).
4.1	— Indenture dated as of November 23, 2004 between the Company, the guarantors named therein and Wells Fargo Bank, National Association (as Trustee), including table of contents and cross-reference sheet (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed November 24, 2004).
4.2	— Specimen 6.125% Series B Senior Note due 2014 (incorporated by reference to Exhibit 4.12 to the Company's Registration Statement on Form S-4 dated December 12, 2004, Registration No. 333-121557).
4.3	— Exchange and Registration Rights Agreement, dated as of October 4, 2005, among Goldman, Sachs & Co., Bear, Stearns & Co., Inc., Jefferies & Company, Inc., Hornbeck Offshore Services, Inc. and the guarantors party thereto (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed October 7, 2005).
4.4	— Specimen stock certificate for the Company's common stock, \$0.01 par value (incorporated by reference to Exhibit 4.2 to the Company's amended Registration Statement on Form 8-A/A dated March 25, 2004).
4.5	— Rights Agreement dated as of June 18, 2003 between the Company and Mellon Investor Services LLC as Rights Agent, which includes as Exhibit A the Certificate of Designations of Series A Junior Participating Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights to Purchase Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 3, 2003).

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<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.6	— Amendment to Rights Agreement dated as of March 5, 2004 between the Company and Mellon Investor Services LLC as Rights Agent (incorporated by reference to Exhibit 4.13 to the Company's Form 10-K for the period ended December 31, 2003).
4.7	— Second Amendment to Rights Agreement dated as of September 3, 2004 by and between the Company and Mellon Investor Services, LLC as Rights Agent (incorporated by reference to Exhibit 4.3 to the Company's Form 8-A/A file September 3, 2004).
4.8	— Indenture dated as of November 13, 2006 by and among Hornbeck Offshore Services, Inc., the guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (including form of 1.625% Convertible Senior Notes due 2026) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed November 13, 2006).
4.9	— Registration Rights Agreement dated November 13, 2006 by and among Hornbeck Offshore Services, Inc., the guarantors named therein, and Jefferies & Company, Inc. and Bear, Stearns & Co. Inc. (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed November 13, 2006).
4.10	— Confirmation of OTC Warrant Confirmation dated as of November 7, 2006 by and between Hornbeck Offshore Services, Inc. and Jefferies International Limited (incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed November 13, 2006).
4.11	— Confirmation of OTC Warrant Confirmation dated as of November 7, 2006 by and between Hornbeck Offshore Services, Inc and Bear, Stearns International Limited, as supplemented on November 9, 2006 (incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed November 13, 2006).
4.12	— Confirmation of OTC Warrant Confirmation dated as of November 7, 2006 by and between Hornbeck Offshore Services, Inc. and AIG-FP Structured Finance (Cayman) Limited, as supplemented on November 9, 2006 (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed November 13, 2006).
*10.1	— Director and Advisory Director Compensation Policy, effective January 1, 2007.
*10.2	— Hornbeck Offshore Services, Inc. Deferred Compensation Plan effective July 10, 2007.
*31.1	— Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	— Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	— Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	— Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

Hornbeck Offshore Services, Inc.

Date: August 6, 2007

/s/ JAMES O. HARP, JR.

James O. Harp, Jr.
Executive Vice President and Chief Financial Officer



HORNBECK OFFSHORE SERVICES, INC.
Service with Energy

**DIRECTOR & ADVISORY DIRECTOR
COMPENSATION POLICY
Approved July 16, 2007**

Effective Date

The effective date of the revised plan shall be January 1, 2007.

Cash Compensation Plan

Each Non-employee Director will receive a total annual retainer of \$32,500 paid quarterly on the first day of each calendar quarter. The Chairman of the Board and the Chairman of each of the Audit and Compensation Committees will each receive an additional total annual retainer of \$8,000 paid quarterly on the first day of each calendar quarter. Each Non-employee Director of the Company will receive \$1,200 for each Board meeting if attended in person and \$800 if attended by telephonic communications. Non-employee directors appointed to committees will receive \$800 for each committee meeting. Committee members must attend meetings in person or by telephonic communications to receive the applicable compensation.

Stock Option and Restricted Stock Program

Non-employee Directors will receive a minimum annual grant of 4,000 options or 2,500 shares as restricted stock or restricted stock units or some combination of the same, which amount may be reviewed annually and increased at the discretion of the Compensation Committee.

Health Benefit Program

After 3 years of service as a Non-employee Director, such Non-employee Director and his immediate family may also elect to participate in the same insurance benefit programs on the same monetary terms as the executive officers.

Longevity Plan

The Company will provide a Longevity Plan for the benefit of Non-employee Directors as follows: Upon completion of three years of service as a Non-employee Director, the Non-employee

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Director will be granted (the "Three-Year Grant") (i) an option to purchase the number of shares of common stock equaling 25% of the shares covered by options granted to such Director over the previous three years and (ii) shares as restricted stock or restricted stock units equal to 25% of the shares as restricted stock or restricted stock units granted to such Director over the previous three years. Upon completion of five years of service as a Non-employee Director, the Non-employee Director will be granted (the "Five-Year Grant") (i) an option to purchase the number of shares of common stock equaling 50% of the shares covered by options granted to such Director over the previous five-years less the number of shares covered by options awarded in the Three-Year Grant, if any, and (ii) shares as restricted stock or restricted stock units equal to 50% of the shares as restricted stock or restricted stock units granted to such Director over the previous five years less the number of shares as restricted stock or restricted stock units awarded in the Three-Year Grant, if any. Thereafter, upon completion of each successive period of five years of service, a Non-employee Director will be granted (a "Successive Longevity Grant") (i) an option to purchase the number of shares of common stock equaling 50% of the shares covered by options granted to such Director over the previous five-years (exclusive of any prior Longevity Grants of options during such five years) and (ii) shares as restricted stock or restricted stock units equal to 50% of the shares as restricted stock or restricted stock units granted to such Director over the previous five years (exclusive of any prior Longevity Grants of restricted stock or restricted stock units during such five years). The exercise price of the options granted under the Longevity Plan will be the fair market value per share of the common stock on the date of grant. The longevity options and restricted stock or restricted stock unit awards will vest 100% on the first anniversary of the date of grant. A Three-Year Grant, a Five Year Grant or a Successive Longevity Grant are also referred to herein individually as a "Longevity Grant" or collectively as "Longevity Grants." For purposes of the calculations contemplated by this paragraph, sign-on awards of options, restricted stock or restricted stock units shall not be counted and awards matched to purchases shall not be counted. Non-employee Directors on the original approval date of the Longevity Plan, July 18, 2002, will complete a year of service on July 17 in each succeeding year that they continue serving as a Non-employee Director. Non-employee Directors joining the Board after July 18, 2002, will complete a year of service on the date immediately preceding the anniversary date of the earlier of the date they are appointed as a Director by the Board or elected to the Board by the stockholders in each succeeding year that they continue serving as a Non-employee Director.

Stock Option Grants, Restricted Stock Awards and Restricted Stock Unit Awards

All options granted and restricted stock and restricted stock units awarded to Non-employee Directors under this policy will be granted under and issued from the Company's Incentive Compensation Plan, as such plan may be amended and restated from time to time. Until issued, any pending Longevity Grant will be subject to the same terms and conditions applicable to the comparable award under the Incentive Compensation Plan, as amended from time to time, and any related form of award agreement under the Incentive Compensation Plan applicable to such award, including, but not limited to, the effects a Change in Control or a termination of service for any reason, including Retirement, death, Disability, or for cause, might have on the comparable award. The Compensation Committee retains the discretion to award a departing Non-employee Director the amount of any Longevity Grant to which the Non-employee Director was entitled as of the date of a Change in Control or the Non-employee Director's termination of service for any reason other than for cause.

Definition: Non-employee Director— A non-employee director or advisory director of the Company who has not been employed by the Company for at least 3 years and/or has not tendered his resignation from the Board; provided that payments for an advisory or consulting agreement or for professional services shall not constitute employment for this purpose.

**HORNBECK OFFSHORE SERVICES, INC.
DEFERRED COMPENSATION PLAN**

Effective as of July 10, 2007

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**HORNBECK OFFSHORE SERVICES, INC.
DEFERRED COMPENSATION PLAN**

ARTICLE I

ESTABLISHMENT AND PURPOSE OF THE PLAN

- 1.01 Establishment of the Plan. Hornbeck Offshore Services, Inc. (the "Company") desires to adopt and establish an unfunded deferred compensation plan for the benefit of its non-employee Directors and a select group of its key management and highly compensated employees. Effective as of July 10, 2007 (the "Effective Date"), the Company has by execution of this document created a plan which shall be known as the "Hornbeck Offshore Services, Inc. Deferred Compensation Plan."
- 1.02 Purpose. The purpose of the Plan is to provide deferred compensation and retirement income to non-employee Directors and a select group of key management personnel and highly compensated employees who contribute materially to the continued growth, development and future business success of the Company.

It is the intention of the Company that the Plan meet all of the requirements necessary or appropriate to qualify it as a non-qualified, unfunded, unsecured plan of deferred compensation for a select group of management or highly compensated employees within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and all Plan provisions shall be interpreted accordingly.

ARTICLE II

DEFINITIONS

- 2.01 "Account" or "Accounts" shall mean all or any of the Deferred Account and the Deferred Stock Account maintained under Section 4.01, the Matching Contribution Account and the Discretionary Contribution Account maintained under Section 4.02 or any other Section of the Plan to reflect a Participant's interest (or the undistributed interest of a Beneficiary) under the Plan to the extent any one or more of such Accounts have been created for a Participant or Beneficiary. Each Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his designated Beneficiary, pursuant to this Plan.
- 2.02 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: (i) for the first annual installment, the Participant's vested Account shall be calculated as of the close of business on or around the Participant's Benefit Distribution Date, as determined by the Committee in its sole discretion, and (ii) for remaining annual installments, the Participant's vested Account shall be calculated on every anniversary of such calculation date, as applicable. Each annual installment shall be calculated by multiplying the balance of the Participant's Account attributable to the Participant's

Deferred Account, Deferred Stock Account, Matching Contribution Account and Discretionary Contribution Account by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a ten (10) year Annual Installment Method, the first payment shall be 1/10 of the vested Account, calculated as described in this definition. The following year, the payment shall be 1/9 of the vested Account, calculated as described in this definition.

- 2.03 "Base Salary" shall mean the annual base rate of cash compensation paid by the Company to or for the benefit of a Participant for services rendered or labor performed during any calendar year while a Participant, including base pay a Participant could have received in cash in lieu of (A) deferrals pursuant to Section 3.03 and (B) contributions made on his behalf to any retirement plan which is qualified under section 401 of the Code and which is maintained by the Company or any affiliated company, or to any cafeteria plan under section 125 of the Code which is maintained by the Company or any affiliated company, if such plans exist.
- 2.04 "Benefit Distribution Date" shall mean the date that triggers distribution of a Participant's vested Account. A Participant's Benefit Distribution Date shall be determined upon the occurrence of the earliest of the following dates:
- (a) If the Participant experiences a Termination of Employment, his or her Benefit Distribution Date shall be the date on which the Participant experiences a Termination of Employment; or
 - (b) The date of the Participant's Retirement; provided, however, in the event the Participant has changed his or her retirement benefit election in accordance with Section 4.09, his or her Benefit Distribution Date shall be postponed in accordance with Section 4.09, as applicable; or
 - (c) The date of the Participant's death; or
 - (d) The date on which the Participant becomes Disabled; or
 - (e) The date on which the Company experiences a Change of Control, as determined by the Committee in its sole discretion, if (i) the Participant has elected to receive a distribution of his Account in connection with a Change of Control Benefit, as set forth in Section 4.12(a) below, and (ii) if a Change of Control occurs prior to the Participant's Termination of Employment, Retirement, death or Disability; or
 - (f) The date, if any, elected by the Participant in accordance with Section 4.07 below.
- 2.05 "Beneficiary" shall mean any person or entity, designated in accordance with Section 4.14, entitled to receive benefits which are payable upon or after a Participant's death pursuant to the terms of this Plan.
- 2.06 "Board" shall mean the Board of Directors of the Company, as from time to time constituted.

2.07 "Bonus Compensation" shall mean, in addition to Base Salary, any cash compensation earned by a Participant for services rendered during a Plan Year under any cash incentive or other bonus plan maintained by the Company.

2.08 "Change of Control" means the occurrence of any of the following events:

(a) Change in the ownership of a corporation.

- (1) A change in the ownership of a corporation occurs on the date that any one person, or more than one person acting as a group (as defined in paragraph (2)), acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such corporation. However, if any one person or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation (within the meaning of (b), below)). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this section. This section (a) applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction (see section (c) below for rules regarding the transfer of assets of a corporation).
- (2) For purposes of paragraph (a), persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.
- (3) For purposes of determining stock ownership, section 318(a) of the Code applies. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as

defined by Treas. Reg. § 1.83-3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option. In addition, mutual and cooperative corporations are treated as having stock for purposes of this paragraph (3).

(b) Change in the effective control of the corporation.

- (1) Notwithstanding that a corporation has not undergone a change in ownership under section (a) above, a change in the effective control of a corporation occurs on the date that either:
 - (i) Any one person, or more than one person acting as a group (as determined under paragraph (4)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing 35 percent or more of the total voting power of the stock of such corporation; or
 - (ii) A majority of members of the corporation's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election, provided that for purposes of this paragraph (2) the term corporation refers solely to the relevant corporation for which no other corporation is a majority shareholder (for example, if Corporation A is a publicly held corporation with no majority shareholder, and Corporation A is the majority shareholder of Corporation B, which is the majority shareholder of Corporation C, the term corporation for purposes of this paragraph (2) would refer solely to Corporation A).

In the absence of an event described in paragraph (i) or (ii), a change in the effective control of a corporation will not have occurred.
- (2) A change in effective control also may occur in any transaction in which either of the two corporations involved in the transaction has a Change in Control under (a) or (c). Thus, for example, assume Corporation P transfers more than 40 percent of the total gross fair market value of its assets to Corporation O in exchange for 35 percent of O's stock. P has undergone a change in ownership of a substantial portion of its assets under (c) and O has a change in effective control under this (b).
- (3) If any one person, or more than one person acting as a group, is considered to effectively control a corporation (within the meaning of this (b)), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation (or to cause a change in the ownership of the corporation within the meaning of (a)).

- (4) Persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.
- (5) For purposes of determining stock ownership, see (a)(3) above.
- (c) Change in the ownership of a substantial portion of a corporation's assets.
- (1) A change in the ownership of a substantial portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in paragraph (3)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.
- (2) There is no Change in Control Event under this (c) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer, as provided in this paragraph (2). A transfer of assets by a corporation is not treated as a change in the ownership of such assets if the assets are transferred to -
- (i) A shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock;
 - (ii) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the corporation;
 - (iii) A person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the corporation; or

- (iv) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in paragraph (iii).

For purposes of this paragraph (2) and except as otherwise provided, a person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which the transferor corporation has no ownership interest before the transaction, but which is a majority-owned subsidiary of the transferor corporation after the transaction is not treated as a change in the ownership of the assets of the transferor corporation.

- (3) Persons will not be considered to be acting as a group solely because they purchase assets of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the corporation. If a person, including an entity shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (4) For purposes of determining stock ownership, see (a)(3) above.

2.09 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time. References to any section of the Internal Revenue Code shall include any successor provision thereto.

2.10 "Committee" shall mean the committee appointed in accordance with Article VI hereof. If no Committee is appointed pursuant to Article IV hereof, "Committee" shall mean the Board.

2.11 "Common Stock" shall mean the Common Stock, par value \$.01 per share, of the Company.

2.12 "Company" shall mean Hornbeck Offshore Services, Inc.

2.13 "Compensation" shall mean Base Salary, Bonus Compensation, Restricted Stock Unit Awards and/or Director Fees.

2.14 "Deferred Account" shall mean the separate bookkeeping account established and maintained by the Company to reflect the amount of Compensation deferred by the Participant pursuant to Section 3.03 hereof, as adjusted in accordance with Article IV hereof. A Participant shall have a 100% non-forfeitable interest in his Deferred Account at all times.

- 2.15 "Deferred Stock Account" shall mean the separate bookkeeping account established and maintained by the Company to reflect the amount of Compensation related to any shares of Common Stock the Participant is entitled to receive as a result of the vesting of a right to receive Common Stock pursuant to a Restricted Stock Unit Award deferred by the Participant pursuant to Section 3.03 hereof, as adjusted in accordance with Article IV hereof. A Participant shall have a 100% non-forfeitable interest in his Deferred Stock Account at all times.
- 2.16 "Deferred Compensation Agreement" shall mean the form, which may be in electronic format, established from time to time by the Committee, or its designee, that an Eligible Employee completes, signs and returns to the Committee in order to become a Participant in the Plan and to make any applicable elections under the Plan.
- 2.17 "Director" shall mean a member of the Board and any individual designated as an "Advisory Director" by the Committee.
- 2.18 "Director Fees" shall mean the annual cash compensation paid to a Director for his service on or to the Board, including, but not limited to, annual retainer fees and meeting fees.
- 2.19 "Disabled" or "Disability" shall mean the determination that a Participant:
- (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or
 - (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of his or her Employer.
- 2.20 "Discretionary Contribution" shall mean the amount the Company contributes to the Plan on behalf of any Participant, pursuant to the provisions of Section 3.06 hereof.
- 2.21 "Discretionary Contribution Account" shall mean the separate account maintained for each Participant to record the Discretionary Contribution made to the Plan on behalf of such Participant pursuant to Section 3.06 hereof, as adjusted in accordance with Article IV hereof.
- 2.22 " Effective Date" shall mean July 10, 2007.
- 2.23 "Eligible Employee" shall mean Employees who are selected by the Chief Executive Officer or by the Committee to be eligible to participate in the Plan in accordance with Section 3.01, and who, because of their positions and responsibilities, contribute materially to the continued growth, development and future business success of the Company, or a segment or subsidiary thereof, or are charged with the overall management of the daily operating activities of the Company, or a segment or subsidiary thereof.

- 2.24 "Employee" shall mean a person who is an employee of an Employer.
- 2.25 "Employer" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan.
- 2.26 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time. References to any section of ERISA shall include any successor provision thereto.
- 2.27 "Fair Market Value" shall mean with respect to the Common Stock, as of any date, (i) if the Common Stock is listed or admitted to trade on a national securities exchange, the closing price of the Common Stock on the composite tape of the principal national securities exchange on which the Common Stock is so listed or admitted to trade, on such date or, if there is no trading in the Common Stock on such date, then the closing price of the Common Stock as quoted on such composite tape on the next preceding date on which there was trading in the Common Stock, as published in *The Wall Street Journal* or such other source as the Committee or the Board deems reliable; (ii) if the Common Stock is not listed or admitted to trade on a national securities exchange, then the closing price of the Common Stock as quoted on the National Market System of the NASD; (iii) if the Common Stock is not listed or admitted to trade on a national securities exchange or the National Market System of the NASD, the mean between the bid and asked price for the Common Stock on such date, as furnished by the NASD through NASDAQ or a similar organization if NASDAQ is no longer reporting such information; or (iv) if the Common Stock is not listed or admitted to trade on a national securities exchange or the National Market System of the NASD and if bid and asked prices for the Common Stock are not so furnished by the NASD or a similar organization, the value established by the Board. Fair market value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.
- 2.28 "Matching Contribution" shall mean the amount the Company contributes to the Plan on behalf of any Participant, pursuant to the provisions of Section 3.05 hereof.
- 2.29 "Matching Contribution Account" shall mean the separate account maintained for each Participant to record the Matching Contribution made to the Plan on behalf of such Participant pursuant to Section 3.05 hereof, as adjusted in accordance with the provisions of Article IV hereof.
- 2.30 "Participant" shall mean an Eligible Employee or Director who becomes a participant in the Plan pursuant to Article III hereof and any former Eligible Employee or Director who is entitled to benefits under the Plan.
- 2.31 "Plan" shall mean the Hornbeck Offshore Services, Inc. Deferred Compensation Plan as set forth in this document, and as hereafter amended.

- 2.32 "Plan Year" shall mean the twelve (12) consecutive month period ending on December 31. For the first Plan Year there shall be an initial, short Plan Year from July 10, 2007 to December 31, 2007.
- 2.33 "Qualified Plan" shall mean the Hornbeck Offshore Services, Inc. 401(k) Plan as in effect from time to time.
- 2.34 "Retirement" shall mean, with respect to an Employee, Termination of Employment with all Employers for any reason other than death or Disability, as determined in accordance with section 409A of the Code and related Treasury guidance and regulations, on or after the earlier of the attainment of (a) age sixty-five (65), or (b) age sixty (60) with ten (10) Years of Service; and shall mean with respect to a Director who is not an Employee, separation from service as a Director with all Employers on or after five years of service. If a Participant is both an Employee and a Director, Retirement shall not occur until he or she Retires as both an Employee and a Director.
- 2.35 "Restricted Stock Awards" shall mean any shares of Common Stock granted to a Participant that are subject to restrictions or substantial risk of forfeiture.
- 2.36 "Restricted Stock Unit Awards" shall mean any unsecured promise of the Company to issue shares of Common Stock to a Participant at some point in time in the future which is subject to vesting or substantial risk of forfeiture.
- 2.37 "Termination of Employment" shall mean the separation from service with all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability or death, as determined in accordance with section 409A of the Code and related Treasury guidance and regulations. If a Participant is a Director a Termination of Employment shall occur when the Participant no longer serves on, or advises in the case of an "Advisory Director," the Board. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held.
- 2.38 "Unforeseeable Emergency" shall mean a severe financial hardship of the Participant resulting from (i) an illness or accident of the Participant, the Participant's spouse, or the Participant's dependent (as defined in section 152(a) of the Code), (ii) a loss of the Participant's property due to casualty, or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.
- 2.39 "Year of Vesting Service" shall mean a Plan Year during which the Participant completes not less than 1,000 hours of service for an Employer or a predecessor; provided, however, that such Participant's service prior to the Effective Date of this Plan shall not be counted in determining Years of Vesting Service. With respect to a Director, "Year of Vesting Service" shall mean each year an individual serves on or advises the Board.
- 2.40 The words "herein," "hereof," and "hereunder" shall refer to the Plan.

ELIGIBILITY AND PARTICIPATION

- 3.01 Eligibility. Each Plan Year, the Chief Executive Officer or the Committee shall select those Employees of an Employer who shall be Eligible Employees for such Plan Year. A Director shall be eligible to participate in the Plan as of the Effective Date or, if later, the date that he first serves as a Director. Any Eligible Employee or Director shall become a Participant in the Plan by making an election and executing a Deferred Compensation Agreement as set forth in Section 3.03 below. The determination as to the eligibility of any individual to participate in the Plan for any Plan Year, and the termination of such individual's eligibility to continue to participate in the Plan for any Plan Year, shall be in the sole and absolute discretion of the Committee or its designee, whose decision in that regard shall be conclusive and binding for all purposes hereunder.
- 3.02 Cessation of Eligible Employee or Director Status. If any Participant does not incur a Termination of Employment but ceases to be an Eligible Employee or Director, then, during the period that such Participant is not an Eligible Employee or Director: (i) such Participant's deferred compensation election under Section 3.03 hereof shall cease and such Participant shall not receive any further allocation of Matching Contributions or Discretionary Contributions, if any, under the Plan; and (ii) such Participant's Account shall continue to be adjusted as provided in Sections 4.04 and 4.05 hereof.
- 3.03 Deferred Compensation - General Rules.
- (a) An Eligible Employee or Director may elect, pursuant to a Deferred Compensation Agreement entered into with the Company, to participate in the Plan and to make an initial election to defer the receipt of a portion of the Compensation otherwise payable to him by the Company. All elections made under this Section 3.03 shall be (i) made in writing on a Deferred Compensation Agreement or such other form as may be prescribed by the Committee or its designee, (ii) filed with the Committee or its designee pursuant to procedures established by the Committee, and (iii) irrevocable for the Plan Year for which made. The Deferred Compensation Agreement must be signed by the Participant and delivered to the Company at such time as required by the Committee or its designee. For each Plan Year other than the Plan Year during which he first becomes a Participant, an Eligible Employee's or Director's election to defer receipt of Compensation, and contribute to his Deferred Account or Deferred Stock Account established under this Plan, Compensation must be made prior to the first day of the Plan Year in which such Compensation is earned.
- (b) With respect to the first Plan Year an Employee is eligible to participate, the Eligible Employee must execute his Deferred Compensation Agreement and make his initial election within thirty (30) days after he first becomes eligible to participate in the Plan, or within such other deadline as may be established by the Committee, in its sole discretion, or such Participant will not be allowed to

defer Compensation for the Plan Year; provided, however, that, if an Eligible Employee's first date of eligibility is the first day of a Plan Year, the Eligible Employee must make his first deferral election prior to the first day of such Plan Year. Notwithstanding the foregoing, if Compensation is earned based on a specified performance period, such as a Plan Year, and a deferral election is made in the first year of eligibility but after the beginning of such performance period, such Compensation shall, for purposes of such deferral election, be deemed earned ratably throughout the performance period so that the deferral election applicable to such Compensation shall be applicable to the portion of the Compensation earned after the effective date of the deferral election. That portion of such Compensation to which such deferral election shall relate shall be determined by multiplying the total amount of such Compensation by a fraction the numerator of which is the number of days remaining in the performance period after the effective date of the deferral election and the denominator of which is the total number of days in the applicable performance period.

- (c) The rate of deferred compensation, if any, which each Participant elects for his Compensation must be in whole percentage points or dollar amounts. An initial election: (i) shall be made in accordance with this Section 3.03; (ii) shall be effective as soon as practicable after the executed election form is delivered to the Committee or its designee; (iii) shall only apply with respect to Compensation that relates to services performed subsequent to the effective date of the election; (iv) shall be irrevocable (except as provided in Section 3.03(f) hereof); and (v) shall remain in force for the balance of the Plan Year in which the Participant's participation begins. If so specified on a Deferred Compensation Agreement, a deferred compensation election will carry over from Plan Year to Plan Year and, in that case, a Participant will complete a new election only for a Plan Year for which he wishes to change his deferral election. Notwithstanding the foregoing, if a Participant receives a legally binding right to a payment which is payable in a Plan Year subsequent to the Plan Year in which such legally binding right is received, and such legally binding right is subject to a forfeiture restriction which is based on the Participant's continued service for a period of at least twelve (12) months from the date the Participant obtains the legally binding right to the compensation, the Participant may make an election to defer such compensation on or before the thirtieth (30th) day after the Participant obtains the legally binding right to such compensation, provided that the election is made at least twelve (12) months in advance of the earliest date at which the forfeiture condition could lapse.
- (d) If a Participant is entitled to receive "performance-based compensation," the Committee may, in its sole discretion, determine that an irrevocable deferral election pertaining to such compensation may be made by timely delivering an Deferred Compensation Agreement to the Committee or its designee, in accordance with its rules and procedures, no later than six (6) months before the end of the applicable performance period. "Performance-based compensation" shall be compensation, the payment or amount of which is contingent on pre-established

organizational or individual performance criteria, which satisfies the requirements of section 409A Code and related Treasury guidance or regulations. In order to be eligible to make a deferral election for performance-based compensation, a Participant must perform services continuously from a date no later than the date upon which the performance criteria for such compensation are established through the date upon which the Participant makes a deferral election for such compensation. In no event shall an election to defer performance-based compensation be permitted after such compensation has become both substantially certain to be paid and readily ascertainable.

- (e) The Committee or its designee shall establish and communicate to Participants uniform and nondiscriminatory procedures for the election of deferred compensation and may, pursuant to the provisions of Article VII, change said procedures at such times and in such manner as the Committee or its designee may determine to be necessary or desirable.
- (f) A Participant may not change (increase or decrease) a deferred compensation election for a Plan Year once that Plan Year has begun. Notwithstanding the foregoing, a Participant's deferral election under this Plan will be automatically revoked by the Committee or its designee if the Participant receives a distribution on account of an Unforeseeable Emergency as provided in Section 4.13, or receives a hardship distribution from a plan qualified under section 401(a) of the Code which includes a cash or deferred arrangement as described in section 401(k) of the Code. A Participant whose deferral election is discontinued during a Plan Year may not resume a deferred compensation election until the Plan Year following the Plan Year with respect to which the discontinuance occurred. Termination of Employment by a Participant or the cessation of participation for any reason, including death, Disability or Retirement, shall be deemed to revoke any election then in effect, effective immediately following the close of the pay period in which such termination or cessation occurs.

3.04 Deferred Compensation - Amounts.

- (a) Base Salary Deferrals. A Participant may elect to defer receipt of up to 80% of his Base Salary for any Plan Year. Deferrals of Base Salary under this Plan shall be made before elective deferrals or contributions of Base Salary under any other plan maintained by the Company. Base Salary deferrals made by a Participant shall be credited to such Participant's Deferred Account as of the date the Base Salary deferred would have been received by such Participant in cash had no deferral been made pursuant to this Section 3.04.
- (b) Bonus Compensation Deferrals. A Participant may elect to defer receipt of up to 80% of his Bonus Compensation for any Plan Year. If Bonus Compensation for a Plan Year is payable in more than one future Plan Year under the applicable bonus or incentive pay plan, a Participant shall also make a separate election under this Section 3.04 with respect to such Bonus Compensation for each Plan

Year in which such Bonus Compensation is payable. Deferrals of Bonus Compensation under this Plan shall be made before elective deferrals or contributions of Bonus Compensation under any other plan maintained by the Company. Bonus Compensation deferrals made by a Participant shall be credited to such Participant's Deferred Account as of the date the Bonus Compensation deferred would have been received by such Participant had no deferral been made pursuant to this Section 3.04.

- (c) Director Fees. A Director may elect to defer receipt of up to 100% of his Director Fees for any Plan Year. Deferral of Director Fees made by a Participant shall be credited to such Participant's Deferred Account as of the date the Director Fees deferred would have been received by such Participant in cash had no deferral been made pursuant to this Section 3.04.
- (d) Restricted Stock Unit Award Deferrals. A Participant may elect to defer up to 100% of the Restricted Stock Units the Participant is entitled to receive as a result of the vesting of a right to receive Common Stock pursuant to a Restricted Stock Unit Award. The number of Restricted Stock Units deferred hereunder shall be credited to such Participant's Deferred Stock Account as of the date the shares of Common Stock that vested pursuant to the terms of a Restricted Stock Unit Award would have otherwise been issued, as applicable, had no deferral been made pursuant to this Section 3.04.
- (e) Minimum Limit. A Participant's election to defer his Compensation must reasonably be expected to result in a minimum deferral of One Thousand Dollars (\$1,000) for any Plan Year that he elects deferral of any amounts of his Compensation.

3.05 Matching Contribution. Each Plan Year, an Employer may make a Matching Contribution to the Plan on behalf of a Participant as a percentage of the Base Salary or Bonus Compensation deferred by the Participant for the Plan Year, such percentage to be in such amount as the Employer in its sole discretion may authorize; provided, however, that the Employer may determine that no Matching Contribution shall be made for a Plan Year.

In addition, an Employer may elect to make as a Matching Contribution to a Participant's Matching Contribution Account established under this Plan the portion of such Participant's matching contributions the Participant would otherwise be eligible to receive under the Qualified Plan which cannot be credited to his or her account under the Qualified Plan because of a limitation contained in the Qualified Plan or Code, including, but not limited to, sections 402(g), 401(k)(3), 401(m)(2), and 401(a)(17) of the Code; provided, however, that no such matching contributions otherwise available under the Qualified Plan which relate to a period of time prior to the Participant's participation in this Plan may be added to his Matching Contribution Account hereunder.

3.06 Discretionary Contribution. Each Plan Year, an Employer may make a Discretionary Contribution to the Plan on behalf of a Participant in such amount as the Employer in its sole discretion may authorize; provided, however, that an Employer may determine that no Discretionary Contribution shall be made for a Plan Year.

3.07 FICA and Other Taxes.

- (a) Annual Deferral Amounts. For each Plan Year in which a Participant has amounts withheld from his Compensation pursuant to Deferred Compensation Agreement, the Participant's Employer(s) shall, to the extent applicable, withhold from that portion of the Participant's Base Salary or Bonus, that is not being deferred, in a manner determined by the Employer(s), the Participant's share, if any, of FICA and other employment taxes on such Annual Deferral Amount that the Employer is required to withhold. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.07.
- (b) Company Matching Contributions and Discretionary Contributions. When a Participant becomes vested in a portion of his or her Company Matching Contributions and/or Company Discretionary Contributions, the Participant's Employer(s) shall, to the extent applicable, withhold from that portion of the Participant's Base Salary and/or Bonus, that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes, if any, on such Company Matching Contributions and/or Company Discretionary Contributions. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Contributions or Company Discretionary Contributions, as applicable, in order to comply with this Section 3.07.
- (c) Distributions. The Participant's Employer(s), or the trustee of the trust, if any, shall, to the extent applicable, withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, if any, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and/or the trustee of the Trust.

ARTICLE IV

BENEFITS AND VALUATION OF ACCOUNTS

4.01 Withholding and Crediting of Annual Deferral Amounts.

- (a) For each Plan Year, the portion of a Participant's Base Salary that the Participant has elected to defer, pursuant to the execution of a Deferred Compensation Agreement in accordance with Section 3.03, shall be withheld from each regularly scheduled Base Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Salary. The portion of a Participant's Bonus Compensation and/or Director Fees to be deferred and contributed to the Plan pursuant to the Employee's Deferred Compensation Agreement shall be

withheld at the time the Bonus Compensation or Director Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. Any such Compensation deferred pursuant to this Section 4.01(a) shall be credited to a Participant's Deferral Account at the time such amounts would otherwise have been paid to the Participant.

- (b) For each Plan Year, the portion of any Restricted Stock Unit Award that a Participant has elected to defer, pursuant to the execution of a Deferred Compensation Agreement in accordance with Section 3.03, shall be deferred as of the date the shares of Common Stock that vested pursuant to the terms of a Restricted Stock Unit Award would have otherwise been issued, as applicable. Any such Compensation deferred pursuant to this Section 4.01(b) shall be credited to a Participant's Deferred Stock Account at the time such amounts would otherwise have been paid to the Participant.

- 4.02 Employer Matching Contribution. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Matching Contribution Account under this Plan, which amount shall be for that Participant for that Plan Year. The amount so credited to a Participant's Matching Contribution Account may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant's Matching Contribution Account for a Plan Year may be zero, even though one or more other Participants receive a Company Matching Contribution for that Plan Year. If a Participant is not employed by an Employer as of the last day of a Plan Year, other than by reason of his or her Retirement or death while employed, the annual Company Matching Contribution for that Plan Year shall be zero. Under no circumstances shall the total amount of the annual Company Matching Contribution for a Plan Year for all Participants of an Employer exceed the maximum percentage determined for such Plan Year by the Employer. The Company Matching Contribution described in this Section 4.02 if any, shall be credited on a date or dates to be determined by the Committee, in its sole discretion.
- 4.03 Employer Discretionary Contribution. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Discretionary Contribution Account under this Plan, which amount shall be for that Participant for that Plan Year. A Participant's Discretionary Contribution for any Plan Year shall be an amount determined by the Employer, in its sole discretion. The amount so credited to a Participant under this Plan for any Plan Year (i) may be smaller or larger than the amount credited to any other Participant, and (ii) may differ from the amount credited to such Participant in the preceding Plan Year. The Participant's Discretionary Contribution, if any, shall be credited on a date or dates to be determined by the Committee, in its sole discretion.
- 4.04 Periodic Determination of Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account in accordance with the following rules:

- (a) Measurement Funds. The Participant may elect one or more of the measurement funds selected by the Committee, in its sole discretion, which are based on certain mutual funds or such other deemed investments as may be determined by the Committee in its sole discretion (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his Deferred Account, Matching Contribution Account and Discretionary Contribution Account. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the first calendar quarter that begins at least thirty (30) days after the day on which the Committee gives Participants advance written notice of such change.
- (b) Election of Measurement Funds. A Participant, in connection with his initial deferral election in accordance with Section 3.03 above, shall elect, on the Deferred Compensation Agreement, or on such other form as the Committee or its designee may prescribe, one or more Measurement Fund(s) (as described in Section 4.04(a) above) to be used to determine the amounts to be credited or debited to his Deferred Account, Matching Contribution Account and Discretionary Contribution Account. If a Participant does not elect any of the Measurement Funds as described in the previous sentence, the Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account shall automatically be deemed to be allocated into the lowest-risk Measurement Fund, as determined by the Committee, in its sole discretion. The Participant may (but is not required to) elect, by submitting to the Committee a revised Deferred Compensation Agreement, or such other form as the Committee or its designee may prescribe, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his Deferred Account, Matching Contribution Account and Discretionary Contribution Account, or to change the portion of his Deferred Account, Matching Contribution Account and Discretionary Contribution Account deemed allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Committee, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. Notwithstanding the foregoing, the Committee, in its sole discretion, may impose limitations on the frequency with which one or more of the Measurement Funds elected in accordance with this Section 4.04 may be added or deleted by such Participant; furthermore, the Committee, in its sole discretion, may impose limitations on the frequency with which the Participant may change the portion of his Deferred Account, Matching Contribution Account and Discretionary Contribution Account deemed allocated to each previously or newly elected Measurement Fund.

- (c) Proportionate Deemed Allocation. In making any election described in Section 4.04(b) above, the Participant shall specify on the Deferred Compensation Agreement, or such other form as the Committee or its designee may prescribe, in increments of one percent (1%), the percentage of his Deferred Account, Matching Contribution Account and Discretionary Contribution Account or Measurement Fund, as applicable, to be deemed allocated/reallocated.
- (d) Crediting or Debiting Method. The performance of each Measurement Fund (either positive or negative) will be determined on a daily basis based on the manner in which such Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account has been hypothetically allocated among the Measurement Funds by the Participant. Such Measurement Fund performance shall be credited or debited to a Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account, as applicable.
- (e) No Actual Investment. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation of his Deferred Account, Matching Contribution Account, and Discretionary Contribution Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account shall not be considered or construed in any manner as an actual investment of his Deferred Account, Matching Contribution Account and Discretionary Contribution Account in any such Measurement Fund. In the event that the Company (or the trustee, if a trust is established pursuant to Section 5.02), in its own discretion, decides to invest funds in any or all of the investments on which the Measurement Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or, if applicable, the trust; the Participant shall at all times remain an unsecured creditor of the Company.

4.05 Periodic Determination of Participant's Deferred Stock Account.

- (a) Amounts credited to a Participant's Deferred Stock Account shall be deemed invested in a Measurement Fund, each share of which ("Measurement Share") is based on the value of a share of Common Stock. Amounts credited to the Deferred Stock Account shall continue to be deemed invested in Measurement Shares until the distribution thereof; provided, however, that upon a tender offer for shares of Common Stock, a Participant may direct the Company to tender the shares of Common Stock represented by the value of any Measurement Shares then credited to his Deferred Stock Account, in which case the consideration therefor shall be credited upon receipt to the Participant's Deferred Account.

- (b) For all purposes of the Deferred Stock Account, the value of a Measurement Share on any given date will be an amount equal to the Fair Market Value of a share of Common Stock as of that date. The change in the value of a Participant's Deferred Stock Account shall be determined on a daily basis based the change in the value of the total number of Measurement Shares credited to the Participant's Deferred Stock Account (either positive or negative).
- (c) A Participant's Deferred Stock Account may be adjusted to reflect the addition of the value of dividends issued on the Common Stock of the Company.

4.06 Vesting.

- (a) Deferred Account and Deferred Stock Account. A Participant shall at all times be 100% vested in his Deferred Account and his Deferred Stock Account.
- (b) Matching Contribution Account and Discretionary Contribution Account. A Participant shall vest in each Matching Contribution and Discretionary Contribution, plus amounts credited and debited on such amount, on each anniversary of the date on which any such Matching Contribution or Discretionary Contribution was credited to the Matching Contribution Account or Discretionary Contribution Account, as applicable, in accordance with the following schedule; provided, however, that the Participant must be in the service of a the Company as an Employee on each such anniversary to receive vesting credit:

Time Elapsed Following Crediting of a Matching Contribution or Discretionary Contribution	Vested Percentage
Less than 2 years	0%
2 years or more, but less than 3	20%
3 years or more, but less than 4	40%
4 years or more, but less than 5	60%
5 years or more, but less than 6	80%
6 years or more	100%

A new vesting schedule shall apply to each Matching Contribution or Discretionary Contribution credited to the Participant's Matching Contribution Account or Discretionary Contribution Account, as applicable.

- (c) Forfeitures. The percentage of a Participant's Matching Contribution Account and Discretionary Contribution Account that he does not receive on account of Termination of Employment prior to 100% vesting in accordance with Section 4.06(b) will be considered a "Forfeiture" and shall remain as a general asset of the Company. In the event a trust is established for payment of benefits as provided for in Article V, the Committee shall use Forfeitures (calculated as of the last day of the Plan Year in which the Forfeitures occur) to pay applicable Plan

administration expenses or to reduce any Matching Contribution or Discretionary Contribution made to Participants for such Plan Year. If no Matching Contribution or Discretionary Contribution is made for such Plan Year, then such Forfeitures shall be available to pay applicable Plan administration expenses or to offset Matching Contributions or Discretionary Contributions made in a future Plan Year and, until allocated to a Participant's Account, no Participant shall have any interest in or right to any Forfeiture.

- (d) Vesting Upon Disability, Death, or Retirement. A Participant's right to his Matching Contribution Account and Discretionary Contribution Account shall be 100% vested due to such Participant's Disability, death, or Retirement.
- (f) Vesting Upon a Change of Control. A Participant's right to his Matching Contribution Account and Discretionary Contribution Account shall be 100% vested due to a Change of Control pursuant to Section 2.08.
- (g) Vesting in Event of Plan Termination. If the Plan terminates in accordance with Section 8.01 hereof, each Participant shall be 100% vested in his Accounts.

4.07 Distribution Elections.

- (a) Time of Payment. With respect to each election by a Participant to defer Compensation pursuant to Article III, such Participant may elect to commence payment of such deferral (and the earnings credited thereto) as of a specific future month and year, but not earlier than three (3) years from the date of the deferral, and not later than the applicable Benefit Distribution Date.
- (b) Form of Payment.
 - (i) Base Salary and Bonus Compensation. At the time a Participant makes an election to defer Base Salary, Bonus Compensation, Director Fees or Restricted Stock Units pursuant to Article III, such Participant shall elect a form of payment with respect to such deferral and, to the extent provided on the Deferred Compensation Agreement, all subsequent deferrals (and the earnings credited thereto) from one of the following forms:
 - (A) A lump sum; or
 - (B) Annual Installment Method for a period of up to fifteen (15) years.Payments pursuant to a Participant's election shall commence no later than sixty (60) days after the specific date elected by the Participant in (a) above.
 - (ii) Matching Contribution Account and Discretionary Contribution Account. Any distribution of Base Salary, Bonus Compensation and Director Fees shall include any amounts the Participant's Employer may have contributed to the Participant's Matching Contribution Account and Discretionary Contribution Account (and the earnings credited thereto) and that are vested as of the applicable payment date.

- (iii) Payment Election Generally. Except as provided in Section 4.09, elections made by a Participant in this Section 4.07 regarding the time and form of payment of a deferral, and the earnings credited thereto, shall be irrevocable once made.

4.08 Termination Benefit.

- (a) A Participant who has a Termination of Employment shall receive, as a Termination Benefit, that portion of his or her vested Account, calculated as of the close of business on or around the Participant's Benefit Distribution Date, as determined by the Committee in its sole discretion, that is not subject to an election under Section 4.07.
- (b) The Termination Benefit shall be paid to the Participant in a lump sum payment no later than sixty (60) days after the Participant's Benefit Distribution Date.

4.09 Retirement Benefit.

- (a) Upon a Participant's Retirement, the Participant shall receive a retirement benefit, which shall be equal to the entire amount credited to the Participant's Account that is not subject to an election under Section 4.07, determined as provided in Sections 4.04 and 4.05, and calculated as of the close of business on or around the Participant's Benefit Distribution Date, such amount to be determined by the Committee in its sole discretion.
- (b) Payment of Retirement Benefit.
 - (i) In connection with his or her commencement of participation in the Plan, a Participant may elect pursuant to Section 4.07(b) to receive his retirement benefit either in a lump sum, or pursuant to an Annual Installment Method of up to fifteen (15) years. If a Participant does not make any election with respect to the payment of the retirement benefit, then such Participant shall be deemed to have elected to receive the retirement benefit in a lump sum.
 - (ii) The Participant may change the form of payment of his retirement benefit by submitting an election changing his form of payment, on such form as may be prescribed by the Committee or its designee, in accordance with the following criteria:
 - (A) The election to modify the retirement benefit shall have no effect until at least twelve (12) months after the date on which the election is made; and
 - (B) The first retirement benefit payment shall be delayed at least five (5) years from the Participant's originally scheduled Benefit Distribution Date described in Section 2.04.

For purposes of applying the requirements above, the right to receive the retirement benefit in installment payments shall be treated as the entitlement to a single payment. The Committee shall interpret all provisions relating to changing the retirement benefit election under this Section 4.09 in a manner that is consistent with section 409A of the Code and related Treasury guidance or regulations.

The form of payment election most recently accepted by the Committee that has become effective shall govern the payout of the retirement benefit.

(iii) The lump sum payment shall be made, or installment payments shall commence, no later than sixty (60) days after the Participant's Benefit Distribution Date. Remaining installments, if any, shall be paid no later than sixty (60) days after each anniversary of the Participant's Benefit Distribution Date.

4.10 Disability. In the event of a Participant's Disability, payment of the entire amount credited to such Participant's Deferred Account, Deferred Stock Account, Matching Contribution Account and Discretionary Contribution Account that is not subject to an election under Section 4.07 shall be distributed to the Participant in a lump sum in cash within sixty (60) days following the Participant's Benefit Distribution Date.

4.11 Death. In the event of a Participant's death at a time when amounts are credited to such Participant's Account, the entire amount credited to the Participant's Deferred Account, Matching Contribution Account and Discretionary Contribution Account that is not subject to an election under Section 4.07 or Section 4.09 shall be distributed in a lump sum in cash to such Participant's designated Beneficiary or Beneficiaries within sixty (60) days of the Participant's Benefit Distribution Date. Notwithstanding the foregoing, if a Participant dies, and at the time of the Participant's death the Participant was receiving his benefits under the Plan in installments pursuant to an election under Section 4.07(b) or Section 4.09(b), the balance of the amount subject to such distribution election will continue to be paid in the same form to the Participant's Beneficiary.

4.12 Change Of Control Benefit.

(a) Election of Change of Control Benefit. A Participant, in connection with his or her commencement of participation in the Plan, shall irrevocably elect on the Deferred Compensation Agreement whether to (i) receive a Change of Control Benefit upon the occurrence of a Change of Control, which shall be equal to the Participant's vested Account, calculated as of the close of business on or around the Participant's Benefit Distribution Date, as determined by the Committee in its sole discretion, or (ii) to have his Account remain in the Plan upon the occurrence of a Change of Control and to have his Account remain subject to the terms and conditions of the Plan. If a Participant does not make any election

with respect to the payment of his Account in connection with a Change of Control, then such Participant's Account shall remain in the Plan upon a Change of Control and shall be subject to the terms and conditions of the Plan.

- (b) Matching Contribution Account and Discretionary Contribution Account. In the event of a Change of Control, the unvested balance in each Participant's Matching Contribution Account and Discretionary Contribution Account will accelerate and vest, pursuant to Section 4.06(e) of the Plan.
- (c) Payment of Change of Control Benefit. The Change of Control Benefit, if any, shall be paid to the Participant in a lump sum no later than sixty (60) days after the Participant's Benefit Distribution Date. Notwithstanding the foregoing, the Committee shall interpret all provisions in this Plan relating the payment of a benefit as a result of a Change of Control in a manner that is consistent with section 409A of the Code and related Treasury guidance and regulations.

4.13 Withdrawal Payout/Suspensions for Unforeseeable Emergencies.

- (a) If the Participant experiences an Unforeseeable Emergency, the Participant may petition the Committee to receive a partial or full payout from the Plan, subject to the provisions set forth below.
- (b) The payout, if any, from the Plan shall not exceed the lesser of (i) the Participant's vested Account, calculated as of the close of business on or around the date on which the amount becomes payable, as determined by the Committee in its sole discretion, or (ii) the amount necessary to satisfy the Unforeseeable Emergency, plus amounts necessary to pay Federal, state, or local income taxes or penalties reasonably anticipated as a result of the distribution. Notwithstanding the foregoing, a Participant may not receive a payout from the Plan to the extent that the Unforeseeable Emergency is or may be relieved (A) through reimbursement or compensation by insurance or otherwise, (B) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship or (C) by cessation of deferrals under this Plan.
- (c) If the Committee, in its sole discretion, approves a Participant's petition for payout from the Plan, the Participant shall receive a payout from the Plan within sixty (60) days of the date of such approval, and the Participant's deferrals under the Plan shall be terminated as of the date of such approval.
- (d) In addition, a Participant's deferral elections under this Plan shall be terminated to the extent the Committee determines, in its sole discretion, that termination of such Participant's deferral elections is required pursuant to Treas. Reg. §1.401(k)-1(d)(3) for the Participant to obtain a hardship distribution from an Employer's 401(k) Plan. If the Committee determines, in its sole discretion, that a termination of the Participant's deferrals is required in accordance with the preceding sentence, the Participant's deferrals shall be terminated as soon as administratively practicable following the date on which such determination is made.

- (e) Notwithstanding the foregoing, the Committee shall interpret all provisions relating to a payout and/or termination of deferrals under this Section 4.13 in a manner that is consistent with section 409A of the Code and related Treasury guidance and Regulations.
- 4.14 Designation of Beneficiaries. Each Participant shall have the right, at any time, to designate the primary and contingent Beneficiary or Beneficiaries to receive his Account balance under the Plan upon the death of the Participant. The designated Beneficiary under the Plan may be the same or different from the beneficiary designation under any other plan of the Employer in which the Participant participates.
- (a) Spousal Consent for Beneficiary Designation Change. A Participant shall designate a Beneficiary or change a Beneficiary designation by completing a Beneficiary designation form, and returning the signed form to the Committee or its designee, and otherwise complying with the terms of the Beneficiary designation form and the Plan's rules and procedures applicable to Beneficiary designations. If the Participant names someone other than his spouse as the sole primary Beneficiary, the Committee or its designee may, in its sole discretion, determine whether spousal consent is required to be provided in a form prescribed by the Committee or its designee, executed by such Participant's spouse and returned to the Committee or its designee. Upon the acceptance by the Committee or its designee of a new Beneficiary designation form, all Beneficiary designations previously filed shall be canceled. The Committee or its designee shall be entitled to rely on the last Beneficiary designation form filed by the Participant and accepted by the Committee or its designee prior to his death.
- (b) Revocation of Spousal Beneficiary Designation Upon Divorce. If a Participant is divorced and the Participant's former spouse is the Beneficiary named by the Participant on a Beneficiary designation form accepted by the Committee or its designee prior to the effective date of the divorce, the former spouse shall be deemed to have predeceased the Participant and the Participant's Account balance under the Plan shall be paid to the remaining primary or contingent Beneficiaries, as applicable, with the exception of any portion of the Participant's Account balance under the Plan previously awarded to the Participant's former spouse under Section 9.11 pursuant to a valid court order issued in connection with a division of property in a divorce proceeding.
- (c) No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided in this Section 4.14, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's Account, then the Participant's designated Beneficiary shall be deemed to be his surviving spouse. If the Participant has no surviving spouse, the remaining Account balance under the Plan payable to a Beneficiary shall be paid first in equal shares to the Participant's surviving children and if the Participant has no surviving children, in equal shares to the Participant's surviving parents and if the Participant has no surviving parents, to the executor or personal representative of the Participant's estate.

- (d) Uncertainty Concerning Beneficiary. If the Committee or its designee is uncertain about the proper Beneficiary to receive payments following the death of a Participant, the Committee or its designee shall have the right, exercisable in its discretion, to cause the Employer to withhold such payments until the matter is resolved to the Committee's satisfaction.
 - (e) Discharge of Obligations. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge the Employer and the Committee from all further obligations under the Plan with respect to the Participant or the Beneficiary.
- 4.15 Forfeiture for Cause. A Participant (or the Participant's Beneficiary) shall not be entitled to receive any portion of the amount credited to such Participant's Matching Contribution Account and Discretionary Contribution Account, and all amounts credited to such Accounts shall be permanently forfeited by the Participant as a result of the Participant's termination of employment for Cause. For purposes of this Section 4.15 "Cause" means (i) "cause" as that term may be defined in any written employment agreement between the Participant and an Employer which may at any time be in effect, or (ii) in the absence of such a definition in a then-effective written employment agreement (in the determination of the Committee) the occurrence of one or more of the following events:
- (a) Participant's failure to substantially perform such of Participant's duties with an Employer as determined by the Committee or the Employer;
 - (b) Participant's willful failure or refusal to perform specific directives of his Employer, which directives are consistent with the scope and nature of Participant's duties and responsibilities;
 - (c) Participant's conviction of a felony;
 - (d) a breach of Participant's fiduciary duty to an Employer or any act or omission of Participant that (A) results in the assessment of a criminal penalty against an Employer, (B) is otherwise in violation of any federal, state, local or foreign law or regulation (other than traffic violations and other similar misdemeanors), (C) adversely affects or could reasonably be expected to adversely affect the business reputation of an Employer, or (D) otherwise constitutes willful misconduct, gross negligence, or any act of dishonesty or disloyalty;
 - (e) the violation by Participant of any policy, rule or directive established by an Employer; or
 - (f) an Employer's determination that Participant's performance or conduct was unacceptable.
- 4.16 Unclaimed Benefits. In the case of a benefit payable on behalf of a Participant, if the Committee or its designee is unable to locate the Participant or Beneficiary to whom such benefit is payable, such benefit shall be forfeited to the Company by the later of (a) the Committee's determination that the Participant or Beneficiary cannot be located, or (b)

one (1) year from the last date on which any written communication was sent to the Participant or Beneficiary. Notwithstanding the foregoing, if subsequent to any such forfeiture the Participant or Beneficiary to whom such benefit is payable makes a valid claim for such benefit, such forfeited benefit shall be paid by the Employer or restored to the Plan by the Employer.

ARTICLE V

SOURCE OF PAYMENT OF BENEFITS

- 5.01 Source of Funds. The Plan is a nonqualified, unfunded, deferred compensation plan. All benefits payable under the Plan shall be from the general assets of the Company, which are subject to the claims of the Company's general creditors. Neither the Participants nor any Beneficiary shall have any right, title or interest whatever in or to, or any claim, preferred or otherwise, in or to, any particular assets of the Company as a result of participation in the Plan, any policy or contract as provided for herein, or any trust that the Company may establish to aid in providing the payments described in the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust or a fiduciary relationship of any kind between the Company and a Participant or any other person. Neither a Participant nor a Beneficiary of a Participant shall acquire any interest greater than that of an unsecured creditor in any assets of the Company or in any trust that the Company may establish for the purposes of paying benefits hereunder.
- 5.02 Establishment of a Trust.
- (a) In order to provide assets from which to fulfill the obligations of the Participants and their Beneficiaries under the Plan, the Company may establish a trust by a trust agreement with a third party, the trustee, to which each Employer may, in its discretion, contribute cash or other property, including securities issued by the Company, to provide for the benefit payments under the Plan (the "Trust"). All assets paid into any Trust shall at all times before actual payment to a Participant or Beneficiary remain subject to the claims of the general creditors of the Company. In the absence of action by the Committee, nothing herein shall be construed to create or require the creation of a trust for the purpose of paying benefits owing under the Plan.
 - (b) To the extent a Trust established in connection with this Plan, if any, has sufficient assets, the trustee of such Trust shall pay benefits to Participants or their Beneficiaries, except to the extent an Employer pays the benefits directly and provides adequate evidence of such payment to the Trustee. To the extent the trustee does not or cannot pay benefits out of a Trust established in connection with this Plan, the benefits shall be paid by the Participant's Employer. Any benefit payments made to a Participant or for his benefit pursuant to any provision of the Plan shall be debited to such Participant's Deferred Account, Deferred Stock Account, Matching Contribution Account or Discretionary Contribution Account, as appropriate.

- 5.03 Interrelationship of the Plan and the Trust. The provisions of the Plan shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.
- 5.04 Distributions From the Trust. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.
- 5.05 Purchase of Insurance Policies or Contracts. Although the Plan is to be deemed totally unfunded, in addition to the discretionary authority to establish a trust as provided for herein, the Company may, but shall not be obligated to, purchase one or more life insurance or annuity policies or contracts for the purpose of providing for its obligations hereunder. Any such policies or contracts, if so purchased, shall name the Company or the trust as beneficiary and sole owner, with all incidents of ownership therein, including (but not limited to) the right to cash and loan values, dividends (if any), death benefits, and the right of termination. Any such policies or contracts purchased hereunder shall remain a general restricted asset of the Company or of the trust. Unless otherwise provided by the Company, no policy or contract as provided for herein shall be deemed to be held in trust for the benefit of a Participant or any Beneficiary.

ARTICLE VI

ADMINISTRATION

- 6.01 Appointment of Committee. The administration of the Plan will be the responsibility of the Committee or its designee. The Committee shall be appointed by the Board and shall consist of one (1) or more members. Each member of the Committee shall serve for a term of one (1) year and until his successor shall be appointed. A member may serve for more than one (1) term. If the Committee consists of more than one member, the Committee shall appoint one (1) of the members as Chairman by majority vote. The Committee, by majority vote, shall be authorized to remove any member of the Committee with or without cause by notifying such member in writing, and may fill vacancies in the Committee, however caused. A member of the Committee may resign upon ten (10) days' prior notice by delivery of his written resignation to the other members of the Committee. Subject to its ability to delegate such authority to its authorized designee as provided in Sections 6.03 and 6.08 herein, the Committee shall have the sole power, duty and responsibility for directing the administration of the Plan in accordance with its terms.
- 6.02 Compensated Expenses of the Committee. The members of the Committee shall serve without compensation for their services as such, but the reasonable and necessary

expenses of the Committee shall be paid as provided in Section 9.09. When, in its discretion, the Company or any adopting employer deems it advisable, the Committee shall be authorized to have the records of the Committee audited by an independent auditor, and reasonable and necessary expenses thereby incurred shall be paid as provided in Section 9.09 hereof.

6.03 Secretary and Agents of the Committee. The Committee may appoint a Secretary who may, but need not, be a member of the Committee, and may employ such agents and such clerical and other personnel as reasonably may be required for the purpose of administering the Plan. Such administrative personnel shall carry out the duties and responsibilities assigned to them by the Committee. The Committee in its sole discretion may delegate the duty and responsibility for directing and administering the Plan in accordance with its terms to such personnel or such other designees as the Committee may decide, in which case such individuals will have the authority delegated to them by the Committee until such time as the Committee revokes such authority. The Committee may also appoint such accountants, counsel, and actuaries and other advisers as it deems necessary or desirable in connection with the administration of the Plan. Expenses necessarily incurred for such purpose shall be paid as provided in Section 9.09 hereof.

6.04 Actions of Committee.

- (a) A majority of the members of the Committee shall constitute a quorum for the transaction of business, and shall have full power to act hereunder. Action by the Committee shall be official if approved by a vote of a majority of the members present at any official meeting. The Committee may, without a meeting, authorize or approve any action by written instrument signed by a majority of all of the members. Any written memorandum signed by the Chairman, or any other member of the Committee, or by any other person duly authorized by the Committee to act, in respect of the subject matter of the memorandum, shall have the same force and effect as a formal resolution adopted in open meeting.
- (b) A member of the Committee may not vote or decide upon any matter relating solely to him or vote in any case in which his individual right or claim to any benefit under the Plan is specifically involved. If, in any case in which a Committee member is so disqualified to act, the remaining members then present cannot, by majority vote, act or decide, the Committee will appoint a temporary substitute member to exercise all of the powers of the disqualified member concerning the matter in which he is disqualified.
- (c) The Committee shall maintain minutes of its meetings and written records of its actions, and as long as such minutes and written records are maintained, members may participate and hold a meeting of the Committee by means of conference telephone or similar communications equipment which permits all persons participating in the meeting to hear each other. Participation in such a meeting constitutes presence in person at such meeting.

- 6.05 Authority of Committee. The Committee or its designee is authorized to take such actions as may be necessary to carry out the provisions and purposes of the Plan and shall have the discretionary authority to control and manage the operation and administration of the Plan. In order to effectuate the purposes of the Plan, the Committee or its designee shall have the fiduciary power and discretion to construe and interpret the Plan, to supply any omissions therein, to reconcile and correct any errors or inconsistencies, to decide any questions in the administration and application of the Plan, and to make equitable adjustments for any mistakes or errors made in the administration of the Plan. All such actions or determinations made by the Committee, and the application of rules and regulations to a particular case or issue by the Committee, in good faith, shall not be subject to review by any person or entity, but shall be final, binding and conclusive on all persons ever interested hereunder. In construing the Plan and in exercising its power under provisions requiring Committee approval, the Committee shall attempt to ascertain the purpose of the provisions in question and when such purpose is known or reasonably ascertainable, such purpose shall be given effect to the extent feasible. Likewise, the Committee is authorized to determine all questions with respect to the individual rights of all Participants and their Beneficiaries under this Plan, including, but not limited to, all issues with respect to valuation of Accounts, and Retirement, Disability or Termination of Employment, and shall direct any trustee concerning the allocation, payment and distribution of any funds held in trust for purposes of the Plan.
- 6.06 General Administrative Powers. The Committee or its designee shall have authority to make, and from time to time, revise rules and regulations for the administration of the Plan.
- 6.07 Plan Administrator. "Plan Administrator" shall mean the Committee or its designee. The Plan Administrator shall exercise such authority and responsibility as it deems appropriate to comply with the provisions of federal law and governmental regulations issued thereunder and to carry out any duties imposed hereby.
- 6.08 Duties of Administrative Personnel. Administrative personnel appointed pursuant to Section 6.03 hereof, shall be responsible for such matters as the Committee shall delegate to them by written instrument, including, but not limited to communications to Employees at the direction of the Committee, reports to the Committee involving questions of eligibility and contributions, and assisting Participants and Beneficiaries in the completion of forms prescribed by the Committee. Administrative personnel may not make any decision as to Plan policy, interpretations, practices or procedures unless the authority to make such decisions has been delegated to them in writing by the Committee. All administrative personnel shall perform their allocated function within the policies, interpretations, rules, practices and procedures established by the Committee, except that administrative personnel shall coordinate matters related to the Plan with the appropriate departments of the Company and each adopting employer as the Committee directs.
- 6.09 Indemnity. The Company shall indemnify and hold harmless each "Indemnified Person," as defined below, against any and all claims, demands, suits, proceedings, losses, damages, interest, penalties, expenses (specifically including, but not limited to counsel

fees to the extent approved by the Company or otherwise provided by law, court costs and other reasonable expenses of litigation), and liability of every kind, including amounts paid in settlement, with the approval of the Company, arising from any action or cause of action related to the Indemnified Person's act or acts or failure to act. Such indemnity shall apply regardless of whether such claims, demands, suits, proceedings, losses, damages, interest, penalties, expenses, and liability arise in whole or in part from the negligence or other fault of the Indemnified Person, except when the same is judicially determined to be due to gross negligence, fraud, recklessness, willful or intentional misconduct of such Indemnified Person. "Indemnified Person" shall mean each member of the Committee and each individual otherwise acting in an administrative capacity with respect to the Plan.

6.10 Review Procedures Under ERISA.

- (a) Presentation of Claim. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee or its designee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.
- (b) Notification of Decision. The Committee or its designee shall consider a Claimant's claim within a reasonable time, but no later than 90 days (45 days in the case of a claim for Disability benefits) after receiving the claim. If the Committee or its designee determines that special circumstances require an extension of time for processing the claim (or in the case of a claim for Disability benefits, an extension is necessary for reasons beyond the control of the Plan), written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 90 day (or 45 day) period. In no event shall such extension exceed a period of 90 days (30 days in the case of a claim for Disability benefits which may be further extended for an additional 30 days if the additional extension is due to reasons beyond the control of the Plan) from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee or its designee shall notify the Claimant in writing that the Claimant's requested determination has been made, and that the claim has been allowed in full; or that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
 - (i) the specific reason(s) for the denial of the claim, or any part of it;

- (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
 - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
 - (iv) if the claim is a claim for Disability benefits, an internal rule, guideline, protocol or other similar criterion which was relied on in connection with the review of the claim and that such internal rule, guideline, protocol or similar criterion may be obtained by the Claimant at the Claimant's request free of charge;
 - (v) if the claim is a claim for Disability benefits, and the denial is based on medical necessity or other similar exclusion or limit, Claimant's right to receive free of charge an explanation of how that exclusion or limit and any related clinical judgments apply to the Claimant's medical circumstances;
 - (vi) an explanation of the claim review procedure set forth in Section 6.10(d) below; and
 - (vii) a statement of the Claimant's right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on review.
- (c) Review of a Denied Claim. On or before 60 days (180 days in the case of a claim for Disability benefits) after receiving a notice from the Committee or its designee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee or its designee a written request for a review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):
- (i) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;
 - (ii) may submit written comments or other documents; and/or
 - (iii) may request a hearing, which the Committee or its designee, as applicable, in its sole discretion, may grant.
- (d) Decision on Review. The Committee or its designee shall render its decision on review promptly, and no later than 60 days (45 days in the case of a claim for Disability benefits) after the Committee or its designee receives the Claimant's written request for a review of the denial of the claim. If the Committee or its designee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 60 day (or 45 day) period. In no

event shall such extension exceed a period of 60 days (45 days in the case of a Disability claim) from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee or its designee expects to render the benefit determination. In rendering its decision, the Committee or its designee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. In the case of a claim for Disability benefits, the review on appeal must be made by a different decision-maker from the Committee or its designee and the decision-maker cannot give procedural deference to the original decision. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (i) specific reasons for the decision;
 - (ii) specific reference(s) to the pertinent Plan provisions upon which the decision was based;
 - (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits;
 - (iv) if the claim is a claim for Disability benefits, an internal rule, guideline, protocol or other similar criterion which was relied on in connection with the review of the claim and that such internal rule, guideline, protocol or similar criterion may be obtained by the Claimant at the Claimant's request free of charge;
 - (v) if the claim is a claim for Disability benefits, and the denial is based on medical necessity or other similar exclusion or limit, Claimant's right to receive free of charge an explanation of how that exclusion or limit and any related clinical judgments apply to the Claimant's medical circumstances; and
 - (vi) a statement of the Claimant's right to bring a civil action under section 502(a) of ERISA.
- (e) Legal Action. A Claimant's compliance with the foregoing provisions of this Section 6.10 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under the Plan.

ARTICLE VII

PARTICIPATION BY EMPLOYERS

- 7.01 Participation in Plan by Affiliated Company. Any affiliated company of the Company, whether or not presently existing, may, in the sole and absolute discretion of the Board, participate in this Plan, effective as of the date indicated by the Board. The provisions of this Plan shall apply only to each Employer severally, except as otherwise specifically provided herein.
- 7.02 Rights and Obligations of the Company and the Employers. Throughout this instrument, a distinction is purposely drawn between rights and obligations of the Company and rights and obligations of each other Employer. The rights and obligations specified as belonging to the Company shall belong only to the Company. Each Employer shall have the obligation to pay the benefits owing to its own Participants, and no Employer shall have the obligation to pay benefits to the Participants of any other Employer. Any failure by an Employer to fulfill its own obligations under this Plan shall have no effect upon any other Employer. The Board, in its sole and absolute discretion, may provide for withdrawal of any Employer without affecting any other Employer.
- 7.03 Withdrawal from Plan. Upon the withdrawal of an Employer pursuant to this Article, the trustee of any trust established pursuant to Article V with respect to such Employer shall segregate the share of the assets in the trust, the value of which shall equal the total credited to the Accounts of Participants of the withdrawing Employer.
- 7.04 Continuance by Successor Company. In the event of the liquidation, dissolution, merger, consolidation or reorganization of an Employer, the successor company may, in the sole and absolute discretion of the Board, continue participation in the Plan for the benefit of the Employees of such Employer. If such successor company does continue participation in the Plan, it shall, in all respects, be substituted for such Employer under the Plan. Any such substitution of such successor company shall constitute an assumption of Plan liabilities by such successor company, and such successor company shall have all of the powers, duties and responsibilities of such Employer under the Plan. If such successor company does not continue participation in the Plan, the Plan shall be terminated with respect to such Employer in accordance with the provisions of the Plan.

ARTICLE VIII

TERMINATION OF PLAN, AMENDMENT OR MODIFICATION

- 8.01 Termination of Plan. Although the Company anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Company will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, the Company reserves the right to terminate the Plan in its entirety or with respect to any Employer. In the event of a termination of the Plan, the Measurement Funds available to Participants following the termination of the Plan shall be comparable in number and type to those

Measurement Funds available to Participants in the Plan Year preceding the Plan Year in which the termination of the Plan is effective. Following a termination of the Plan, Participant Accounts shall remain in the Plan until the Participant becomes eligible for the benefits provided in Articles 5, 6, 7, 8, 9 or 10 in accordance with the provisions of those Articles. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination. Notwithstanding the foregoing, to the extent permissible under section 409A of the Code and related Treasury guidance or Regulations, during the thirty (30) days preceding or within twelve (12) months following a Change in Control the Company may (i) terminate the Plan by action of the Board, and (ii) distribute the vested Accounts to Participants in a lump sum no later than twelve (12) months after the Change in Control, provided that all other substantially similar arrangements sponsored by such the Company are also terminated and all balances in such arrangements are distributed within twelve (12) months of the termination of such arrangements.

8.02 Amendment.

- (a) The Company may, at any time, amend or modify the Plan in whole or in part. Notwithstanding the foregoing, no amendment or modification shall be effective to decrease the value of a Participant's vested Account in existence at the time the amendment or modification is made.
- (b) Notwithstanding any provision of the Plan to the contrary, in the event that the Company determines that any provision of the Plan may cause amounts deferred under the Plan to become immediately taxable to any Participant under section 409A of the Code, and related Treasury guidance or Regulations, the Company may (i) adopt such amendments to the Plan and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Company determines necessary or appropriate to preserve the intended tax treatment of the Plan benefits provided by the Plan and/or (ii) take such other actions as the Company determines necessary or appropriate to comply with the requirements of section 409A of the Code, and related Treasury guidance or Regulations.

ARTICLE IX

MISCELLANEOUS PROVISIONS

- 9.01 Status of Plan. The Plan is intended to be a plan that is not qualified within the meaning of section 401(a) of the Code and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. The Plan shall be administered and interpreted (i) in a manner consistent with that intent, and (ii) in accordance with section 409A of the Code and related Treasury guidance and Regulations.

- 9.02 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 9.03 Employer's Liability. An Employer's liability for the payment of benefits shall be defined only by the Plan. An Employer shall have no obligation to a Participant under the Plan except as expressly provided herein.
- 9.04 No Right to Continue in Employment. The adoption and maintenance of this Plan and the execution of any Deferred Compensation Agreement shall not be deemed to constitute an employment contract between the Company or any of its affiliated companies and any Eligible Employee or Director. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing herein contained shall be deemed (i) to give to any Eligible Employee the right to be retained in the employ of the Company or any of its affiliated companies or any Director the right to be retained as a Director of the Company or any of its affiliated companies; (ii) to affect the right of the Company or any of its affiliated companies to discipline or discharge any Eligible Employee at any time; or (iii) to affect any Eligible Employee's or Director's right to terminate his employment at any time.
- 9.05 Binding Effect. This Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Participants, and their heirs, assigns and personal representatives.
- 9.06 Furnishing Information. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 9.07 Integrated Plan. This Plan constitutes the final and complete expression of agreement among the parties hereto with respect to the subject matter hereof.
- 9.08 Controlling Law. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Texas without regard to its conflicts of laws principles.
- 9.09 Expenses. The expenses of agents or advisers and any other reasonable costs and expenses relating to the adoption, implementation, interpretation and administration of the Plan shall be paid by the Plan, to the extent not paid by the Company.

9.10 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Compensation Committee
Hornbeck Offshore Services, Inc.
Attention: Samuel A. Giberga, Senior
Vice President and General Counsel
103 Northpark Blvd., Suite 300
Covington, LA 70433
Fax: (985) 727-2006

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

9.11 Inalienability of Benefits.

- (a) The right of any Participant or Beneficiary to any benefit or payment under the Plan shall not be subject to alienation or assignment, and to the fullest extent permitted by law, shall not be subject to attachment, execution, garnishment, sequestration or other legal or equitable process. In the event a Participant or Beneficiary who is receiving or is entitled to receive benefits under the Plan attempts to assign, transfer or dispose of such right, or if an attempt is made to subject said right to such process, such assignment, transfer or disposition shall be null and void.
- (b) Notwithstanding the foregoing, if a Participant's former spouse is awarded all or a portion of a Participant's Account under the Plan pursuant to a division of property in connection with a divorce, such former spouse's share of the Participant's Account shall be her separate property and shall be transferable by the Participant's former spouse by will or pursuant to the laws of descent and distribution. In order to be effective, notice of such division of the Participant's Account under the Plan pursuant to a division of property in connection with divorce must be provided in a form which generally complies with the requirements of section 414(p)(1)(B) of the Code, as applicable, and any other requirements prescribed by the Committee or its authorized representative. Any such share of a Participant's Account to which the Participant's former spouse may be entitled shall become immediately due and payable to the former spouse and may be distributed to the former spouse at any time.

9.12 Court Order. The Committee is authorized to comply with any court order in any action in which the Plan or the Committee has been named as a party, including any action involving a determination of the rights or interests in a Participant's benefits under the Plan. Notwithstanding the foregoing, the Committee shall interpret this provision in a manner that is consistent with section 409A of the Cod and other applicable tax law.

- 9.13 Spouse's Interest. The interest in a Participant's Account hereunder of a Participant's spouse, if any, who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse or such spouse's estate in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.
- 9.14 Withholding. The Plan Administrator shall determine whether or not federal income tax withholding is required with respect to any distribution or withdrawal hereunder. Notwithstanding any other provision of this Plan to the contrary, all rights and benefits of a Participant or Beneficiary are subject to withholding of any tax required by law to be withheld.
- 9.15 Validity. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.
- 9.16 Incompetent. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.
- 9.17 Distribution in the Event of Income Inclusion Under 409A. If any portion of a Participant's Account Balance under this Plan is required to be included in income by the Participant prior to receipt due to a failure of this Plan to meet the requirements of Code section 409A of the Code and related Treasury guidance or regulations, the Participant may petition the Committee or Administrator, as applicable, for a distribution of that portion of his Account that is required to be included in his income. Upon the grant of such a petition, which grant shall not be unreasonably withheld, the Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the portion of his Account required to be included in income as a result of the failure of the Plan to meet the requirements of section 409A of the Code and related Treasury guidance or regulations, which amount shall not exceed the Participant's unpaid vested Account under the Plan. If the petition is granted, such distribution shall be made within ninety (90) days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the Participant's benefits to be paid under this Plan.
- 9.18 Deduction Limitation on Benefit Payments. If the Company reasonably anticipates that the Company's deduction with respect to any distribution from this Plan would be limited

or eliminated by application of section 162(m) of the Code, then to the extent deemed necessary by the Company to ensure that the entire amount of any distribution from this Plan is deductible, the Company may delay payment of any amount that would otherwise be distributed from this Plan. Any amounts for which distribution is delayed pursuant to this Section shall continue to be credited/debited with additional amounts in accordance with Sections 4.04 and 4.05, above. The delayed amounts (and any amounts credited thereon) shall be distributed to the Participant (or his Beneficiary) at the earliest date the Company reasonably anticipates that the deduction of the payment of the amount will not be limited or eliminated by application of section 162(m) of the Code.

- 9.19 Obligations to the Company. If a Participant becomes entitled to a distribution of benefits under the Plan, and if at such time the Participant has outstanding any debt, obligation, or other liability representing an amount owed to any Employer, then such Employer may offset such amounts owing it against the amount of benefits otherwise distributable.

IN WITNESS WHEREOF, Hornbeck Offshore Services, Inc. has caused this Plan to be executed by a duly authorized officer this 13th day of July, 2007.

HORNBECK OFFSHORE SERVICES, INC.

By: /s/ Todd M. Hornbeck
Name: Todd M. Hornbeck
Title: Chief Executive Officer

CERTIFICATION

I, Todd M. Hornbeck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hornbeck Offshore Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2007

/s/ Todd M. Hornbeck

Todd M. Hornbeck
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, James O. Harp, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Hornbeck Offshore Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2007

/s/ James O. Harp, Jr.

James O. Harp, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hornbeck Offshore Services, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd M. Hornbeck, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2007

/s/ Todd M. Hornbeck

Todd M. Hornbeck

Chairman, President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hornbeck Offshore Services, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James O. Harp, Jr., Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2007

/s/ James O. Harp, Jr.

James O. Harp, Jr.

Executive Vice President and Chief Financial Officer